

Arizona State Board for Charter Schools

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

Performance Audit and
Sunset Review

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A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

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September 26, 2023

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Ms. Ashley Berg, Executive Director
Arizona State Board for Charter Schools

Transmitted herewith is the Auditor General's report, *A Performance Audit and Sunset Review of the Arizona State Board for Charter Schools*. This report is in response to a December 17, 2020, 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 to provide a quick summary for your convenience.

As outlined in its response, the Board agrees with all the findings and plans to implement all the recommendations. My Office will follow up with the Board in 6 months to assess its progress in implementing the recommendations. I express my appreciation to Executive Director Berg and Board staff for their cooperation and assistance throughout the audit.

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

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Arizona State Board for Charter Schools Performance Audit and Sunset Review

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

Audit purpose

To determine whether the Board's financial framework effectively identifies charter holders' financial difficulties and assess whether the Board complied with statute, rule, and policy requirements for approving new and renewal charter applications and monitoring charter holders' performance using the Board's academic, financial, and operational frameworks. The audit also assessed the Board's compliance with the State's conflict-of-interest and open meeting laws and provides responses to the statutory sunset factors

Key findings

- The Board is responsible for overseeing most charter schools in Arizona and, consistent with statute, implemented frameworks to establish charter holders' and schools' academic, financial, and operational performance requirements. The Board monitors charter holders' and charter schools' compliance and performance through annual evaluations, interval reviews, and site visits, and can issue corrective and disciplinary action to address noncompliance or low performance.
- The Board complied with statute and rule requirements we reviewed for issuing new and renewal charters to qualified applicants, performing annual academic and operational performance evaluations of charter holders and charter schools, and performing most of its required site visits.
- The Board's financial framework may not identify some changes in student enrollment that could indicate a financial difficulty and most of its financial framework measures do not include multi-year assessments of charter holders' financial health, limiting its ability to identify and take actions to address poor financial performance, which is necessary to hold charter schools accountable and avoid adverse effects of charter school closures on students and their families.
- The Board lacked processes for periodically evaluating its fees and resolving complaints within 180 days and did not ensure all employees completed an annual conflict-of-interest form, as required by Board policy.

Key recommendations

The Board should:

- Modify its financial framework measures to ensure that it identifies substantial decreases in student enrollment and incorporates multi-year assessments to better identify charter holders' financial difficulties.
- Develop and implement policies and procedures for periodically evaluating its fees and resolving complaints within 180 days.
- Ensure all employees complete an annual conflict-of-interest form, as required by Board policy.



TABLE OF CONTENTS

Introduction	1
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	14
Board’s financial framework intended to identify charter holders’ financial health	
Board’s financial framework does not always identify charter holders’ financial difficulties	
Identifying financial difficulties is necessary to hold charter holders accountable and to limit adverse effects of charter school closures	
Board’s ADM measure is not used to independently assess charter holders’ financial health and can obscure substantial changes in student enrollment, and Board’s other measures do not assess financial health across multiple years	
Board reported it plans to further review its financial framework but lacks policies and procedures for doing so	
Recommendations	
Sunset factors	24
Summary of recommendations: Auditor General makes 16 recommendations to the Board	37
Appendix A: Scope and methodology	a-1
Board response	
Figure	
1 Number of Board-sponsored charter schools in Arizona, by county As of June 30, 2023 (Unaudited)	4
Tables	
1 A-F letter grades, including ASBE descriptions, and Board’s corresponding measure ratings As of July 13, 2023	6
2 Board’s SDSI designations and Board’s corresponding measure ratings As of August 15, 2023	7
3 Schedule of revenues, expenditures, and changes in fund balances Fiscal years 2021 through 2023 (Unaudited)	12
4 If in place at the time, Board’s financial measures would not have identified financial difficulties for 3 of 5 charter holders that closed mid-year in fiscal years 2019 and 2020	16



TABLE OF CONTENTS

5	If in place at the time, Board’s measures would not have identified as many financial difficulties as the Auditor General school district financial risk analysis or Nevada’s measures for the 5 charter holders that closed mid-year in fiscal years 2019 and 2020	20
6	Charter authorizers by type and number of states As of July 20, 2022 (Unaudited)	25
7	Contract usage by Arizona, Georgia, Nevada, and Utah As of March 28, 2023 (Unaudited)	36



The Arizona Auditor General has completed a performance audit and sunset review of the Arizona State Board for Charter Schools (Board). This performance audit and sunset review determined whether the Board's financial framework effectively identifies charter holders' financial difficulties and assessed whether the Board complied with statute, rule, and policy requirements for approving new and renewal charter applications and monitoring charter holders' compliance with the Board's academic, financial, and operational frameworks. It also assessed the Board's compliance with the State's conflict-of-interest and open meeting laws and provides responses to the statutory sunset factors.

History, purpose, and mission

The Board was established in 1994. Its purpose is to sponsor and oversee charter holders and charter schools in the State (see textbox for definitions of key terms). The Board's mission is to improve public education by sponsoring charter schools that provide quality educational choices in Arizona.

Charter schools share similarities with school districts. For example, similar to school districts, charter schools are publicly funded and are subject to certain State requirements, such as testing students using State-wide standards and State-mandated tests, reporting student enrollment to the Arizona Department of Education (ADE), and requiring a minimum of 180 instructional days prior to June 30 of each fiscal year, unless following an alternative calendar.¹

However, charter schools also have some operational flexibility that school districts do not have in the following areas:

- **Teacher certification**—In contrast to school districts, charter schools are not required to hire certified teachers.²
- **Uniform system of financial records**—Statute requires school districts to comply with minimum internal control policies and procedures for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements called the *Uniform System of Financial Records for Arizona School Districts* (USFR). The USFR is developed by the Office of the Auditor General and the Arizona Department of Education.³ The USFR

Key charter school definitions

Charter sponsor—An entity that is statutorily authorized to approve the establishment of public charter schools in the State. Statute authorizes the Board, the Arizona State Board of Education, the State's 3 public universities, and 10 community college districts to sponsor and oversee public charter schools in the State.

Charter school—A public school established by contract with an Arizona charter sponsor to provide learning that will improve pupil achievement. Charter schools receive public monies and cannot charge tuition.

Charter holder—A person, partnership, corporation, association, or public or private organization of any kind that contracts with the Board to operate charter schools.

Charter—A contract between a charter holder and the Board. The contract outlines specific requirements the charter holder must adhere to, such as federal, State, and local laws.

Source: Auditor General staff summary of information from the National Charter School Resource Center, Board charter template, and Arizona Revised Statutes (A.R.S.) §§15-101, 15-181, and 15-183.

¹ A.R.S. §§15-181, 15-185, 15-101, 15-183, 15-741, 15-901, 15-1042, 15-341.01, respectively.

² In comparison, school districts may hire uncertified teachers who have filed an application and completed the requirements for certification, but due to timing have not yet received a certificate; however, it must be issued within 3 months of commencing employment. See A.R.S. §15-502(B).

³ A.R.S. §15-271(B).

requirements are based on the Arizona Constitution, Arizona Revised Statutes, Arizona Attorney General Opinions, the Governmental Accounting Standards Board’s *Codification of Governmental Accounting and Financial Reporting Standards*, and other federal and State guidance. The USFR includes a uniform, complete chart of accounts for districts to record financial activity in their accounting records. The chart of accounts ensures districts comply with generally accepted accounting principles (GAAP) and meet the needs of the U.S. Department of Education’s account classifications, and improves the financial data, collection, reporting, transmission, accuracy, and comparability among districts.⁴

Similarly, minimum accounting and financial reporting requirements for charter schools, called the *Uniform System of Financial Records for Arizona Charter Schools* (USFRCS) are established in State law.^{5,6} However, statute allows charter sponsors, such as the Board, to determine whether charter holders are eligible for an exception from using the USFRCS, including its similar uniform chart of accounts. As of June 30, 2023, 396 of the Board’s 413 charters (or approximately 96 percent) had an exception from complying with the USFRCS.⁷ According to the Board, once an exception is approved by the Board, it does not expire.

The Board has developed specific requirements that charter holders applying for a USFRCS exception must meet, such as requiring the charter holder to submit its accounting policies to the Board and to be in compliance with the Board’s operational performance framework (for more information on the operational performance framework, see page 9). Applicants must also submit a charter amendment request to the Board for an exception from the USFRCS, which can be approved by the Board or its Executive Director. Although an exception may be approved, the Board requires charter holders to comply with GAAP. Further, charter holders are not exempt from annual auditing requirements; filing the budget or annual financial report (AFR) with ADE or filing any financial report request from the Board, the Office of the Auditor General, or the ADE; and are responsible for any “cross-walks” necessary to complete reporting requirements, which provide charter holders a mechanism to convert their account code structure similarly to the USFRCS chart of accounts.⁸

- **Procurement rules**—School districts are required to follow the School District Procurement Rules established by the Arizona State Board of Education (ASBE) for all purchases exceeding \$100,000. In comparison, charter holders may apply to the Board for an exception to the School District Procurement Rules for purchases exceeding \$100,000 they make using nonfederal funds.⁹ As of June 30, 2023, 395 of the Board’s 413 charters (or approximately 96 percent) had an exception from using the School District Procurement Rules.

The Board has developed specific requirements that charter holders applying for an exception must meet, including requiring the charter holder to establish its own policy for procuring goods and services and be in compliance with the Board’s operational performance framework. In addition, the charter holder’s policy, at a minimum, must follow GAAP, include the specific factors that will be considered to ensure any procurement of goods and services is made in the best interest of the school, and provide the circumstances under which goods or services may be procured from a member of the governing board or an immediate family member of a governing board member, or from an entity in which a governing board member or an immediate family member of a governing board member may benefit.

⁴ A.R.S. §15-271(C).

⁵ A.R.S. §15-183(E)(6).

⁶ The Arizona Auditor General and ADE developed the USFRCS pursuant to A.R.S. §15-183(E)(6). The USFRCS and related guidance prescribes the minimum internal control policies and procedures to be used by Arizona charter schools for accounting, financial reporting, budgeting, attendance reporting, and various legal compliance requirements.

⁷ According to the Board, it did not deny any charter exception requests in fiscal year 2022.

⁸ Additionally, the AFR instructions state that charter holders exempt from all or part of the USFRCS must use an accounting system that allows them to report their financial data using standard expense types and function uses.

⁹ For purchases using federal funds, both districts and charters are required to follow federal procurement requirements and any additional State, local, and tribal laws and regulations, as required by Title 2, *Code of Federal Regulations*, Part 200.

- **Financial statement audits**—Most school districts are required to obtain an annual or biennial financial statement audit based on several factors, including the district’s individual expenditure budget amount. In contrast, statute requires all charter holders to obtain annual financial statement audits. Statute requires all of the financial statement audits, whether for the school districts or charter holders, to be conducted by an independent certified public accountant.
- **Compliance Questionnaires**—In conjunction with the financial statement audits, the independent certified public accountant is also required to complete a compliance questionnaire for school districts and charter holders. A compliance questionnaire assesses compliance with the minimum accounting, financial reporting, and internal control requirements prescribed by the USFR or USFRCS. For example, the USFR and USFRCS compliance questionnaires cover 18 and 21 compliance areas, respectively, and contain at least 100 questions to assess a school district or charter holder’s compliance. As of June 30, 2023, approximately 4 percent of charters are subject to the USFRCS as the remainder have received exceptions from complying with the USFRCS. Exempted charter holders receive a legal compliance questionnaire that does not address minimum accounting, financial reporting, and internal control requirements prescribed by the USFRCS.¹⁰

Board sponsored and oversees most charter schools in Arizona

The Board is Arizona’s primary charter school sponsor and oversees most charter schools in the State. According to Board-provided data, as of June 30, 2023, the Board oversaw 413 charter holders that operated 559 charter schools in the State. During fiscal years 2019 through 2023, the number of Board-sponsored charter schools ranged between 536 and 559 charter schools. As shown in Figure 1, page 4, most of the Board-sponsored charter schools are in Maricopa and Pima Counties. The Board had also sponsored 41 online charter schools as of June 30, 2023. According to the Board, during the 2022-2023 school year, the Board-sponsored charter schools enrolled more than 226,000 students. Conversely, although statute allows the ASBE, the State’s 3 public universities, and 10 community college districts to also sponsor and oversee charter schools in Arizona, as of May 2023, only Arizona State University (ASU) had sponsored other charter schools in the State.¹¹

In addition, according to the National Alliance for Public Charter Schools (NAPCS), for the 2019-2020 school year, which is the most recent year for which data was available as of June 15, 2023, the Board oversaw charter schools with the highest total student enrollment of any independent state charter board in the nation.¹²

Board’s oversight responsibilities

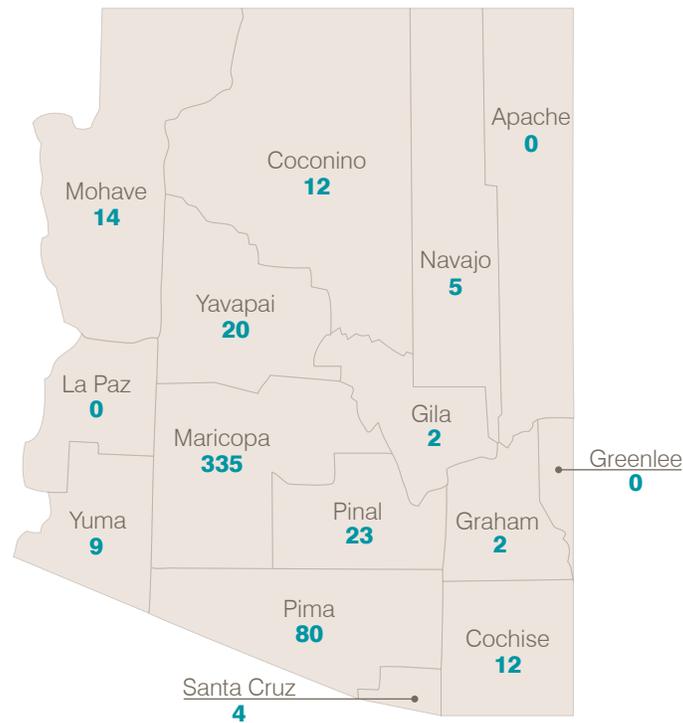
Board responsible for reviewing and approving new and renewal charter applications—The Board is statutorily responsible for reviewing and approving charters for qualified applicants through its new charter application and renewal charter application processes (for more information on our review of new and

¹⁰ A.R.S. §15-914 requires school district and charter holder financial statement audits be conducted in accordance with Government Auditing Standards (GAS), which require independent certified public accountants to include in a report on internal controls relevant information about noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the financial statements or other financial statement data significant to the audit objectives. GAS also requires independent certified public accountants to communicate in writing noncompliance that is less than material but warrants the charter holder’s attention. The financial statement audit also includes the independent certified public accountant’s opinion on whether the charter holder’s financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles and report as findings any significant deficiencies or material weaknesses in internal control over financial reporting that the independent certified public accountant identified based on engagement work performed.

¹¹ According to its website, ASU sponsored 11 charter schools in the State as of May 2023.

¹² The National Alliance for Public Charter Schools. (2022). *The Data Dashboard*. Retrieved 6/13/23 from <https://data.publiccharters.org>.

Figure 1
Number of Board-sponsored charter schools in Arizona, by county¹
As of June 30, 2023
(Unaudited)



¹ This map excludes 41 online charter schools the Board oversees.

Source: Auditor General staff analysis of charter school addresses provided by the Board; and U.S. Postal Office zip code information, obtained June 20, 2023, from <https://www.unitedstateszipcodes.org/zip-code-database>.

renewal applicant files, see Sunset Factor 2, pages 24 through 25).^{13,14,15} The Board's new and renewal charter application processes include the following:

- New charter**—Applicants for a new charter must submit information to the Board on prospective charter school operations, such as educational, operational, and business plans. These plans include items such as course offerings, graduation requirements, policies and procedures, and start-up and 3-year budgets. Board staff review application materials to determine their completeness and verify applicants' start-up monies and work experience and perform credit checks on the applicant(s). The Board also contracts with technical review panels to review an applicant's educational, operational, and business plans.¹⁶ The technical review panels make recommendations to the Board based on their reviews, but the Board members are ultimately responsible for making the final decision to approve or deny a new charter. Once

¹³ A.R.S. §15-182(E)(2) and A.R.S. §15-183(C) and (I).

¹⁴ AAC R7-5-208 requires the Board to review and approve replication applications, which allow a charter holder to implement educational programs, corporate and governance structure, and financial and operational processes from 1 of its existing charter schools at a new charter school. In fiscal year 2022, the Board reported that it approved 1 replication charter and did not deny any replication charter applications.

¹⁵ AAC R7-5-302 requires the Board to make available on its website instructions regarding eligibility and submission requirements for transfer applications. A transfer application allows for either (1) the transfer of an existing charter to the Board or (2) the transfer of an existing charter school operating for at least 3 years to its own charter with the same educational programs and financial processes. In fiscal year 2022, the Board reported that it approved 1 charter school transfer application and did not deny any transfer applications in fiscal year 2022.

¹⁶ Technical review panels are made up of individuals who have experience in charter school leadership, finance, operations, management, and local context regarding how each of these items relates to Arizona charter schools.

approved, rule requires the Board President (or designee) and authorized representative of the applicant to sign the charter within 12 months.¹⁷ Charters outline various requirements the charter holder must comply with throughout the term of the contract, such as complying with all federal, State, and local laws and regulations, providing a comprehensive program of instruction that aligns with State academic standards, and contracting for annual financial statement audits according to Board requirements and policies. Charters are valid for a 15-year term, at which point the charter holder may apply for renewal (see next bullet for more information on renewals).

In fiscal year 2022, the Board received 15 new charter applications, and the Board reviewed and approved new charters for 6 of the applications it received.¹⁸ The other 9 applicants submitted an incomplete application, withdrew from the application process, or did not submit Board-requested missing application information, resulting in a closed application.

- **Renewal**—When a charter is due for renewal, the charter holder is required to submit an application to the Board that includes an attestation with a signature indicating that the charter holder will continue to implement its academic/education plan as described in the charter. Additionally, rule requires Board staff to conduct an academic review site visit of the charter holder’s schools.¹⁹ The purpose of the academic review site visit is to gain an understanding of how the charter school implemented various academic systems, such as requiring the charter school to regularly review its systems for monitoring and integrating State academic standards into its curriculum, and documenting student proficiency. In fiscal year 2022, the Board received, reviewed, and approved 18 charter renewal applications.²⁰ The Board renews charters for 20 years, after which the charter holder may again apply for renewal.

Consistent with statute, Board developed frameworks to establish charter holder and charter school performance requirements—Statute requires the Board to ground its oversight and administrative actions based on the charter holder’s and school’s performance in accordance with the Board’s adopted performance frameworks (see key performance framework definitions in textbox).²¹ These frameworks

Key performance framework definitions

Framework—Guidance that outlines and seeks to quantify the sponsors’ expectations for charter holder and charter school performance.

Measures—A specific aspect of performance. For example, the Board’s financial framework has a measure that indicates whether a charter holder has been issued a notice of default by a lender.

Measure Ratings—Assignment of charter holder or school performance into categories based on how they perform on each measure, such as the Board’s financial framework measure ratings of “Meets standard,” “Approaches standard,” or “Below standard.”

Overall rating—The Board’s overall rating considers and sums up the charter holders’ or charter schools’ various measure ratings into 1 overall rating (for more information on the Board’s financial framework’s overall rating, see Finding 1, textbox, page 18).

Dashboard—Shows the Board’s assessment of charter holders’ and schools’ performance according to each framework. The Board uses color-coded dashboards to show both measure and overall ratings and to clearly state whether the charter holder met the Board’s performance expectations.

Source: Auditor General staff review and summary of the Board’s performance frameworks and dashboards, and information from the 2013 National Association of Charter School Authorizers Core Performance Framework and Guidance.

¹⁷ AAC R7-5-205(B).

¹⁸ The Board did not deny any new charter applications during fiscal year 2022.

¹⁹ AAC R7-5-301(G).

²⁰ The Board did not deny any renewal charter applications during fiscal year 2022.

²¹ A.R.S. §15-183(R).

outline specific measures and ratings for a charter holder's or charter school's performance. The Board's 3 frameworks include the following:

- **Academic Framework**—This framework outlines the Board's academic performance expectations for charter schools and charter holders. It consists of 2 measures that are based on information ADE annually provides to the Board. Specifically:
 - **A-F letter grades measure**—Subject to ASBE final adoption, ADE is required to develop an annual achievement profile for every public school in the State, including charter schools, based on an A through F scale (A-F letter grades).^{22,23,24} The academic framework requires the Board to assign its own measure ratings that coincide with each of the A-F letter grades (see Table 1).

Table 1
A-F letter grades, including ASBE descriptions, and Board's corresponding measure ratings¹
As of July 13, 2023

A-F letter grade	ASBE descriptions	Board's measure ratings
	Excellent	Exceeds standard
	Highly performing	Above standard
	Performing	Meets standard
	Minimally performing	Below standard
	Failing	Falls far below standard

¹ Although ASBE developed its own A-F letter grade descriptions, the Board is not required to use these descriptions when creating its own performance ratings or expectations.

Source: Auditor General staff review of the Board's academic framework and ASBE Frequently Asked Questions School Letter Grades for fiscal year 2022, obtained 7/13/2023 from <https://azsbe.az.gov/f-school-letter-grades>.

- **State designations for school improvement (SDSI) measure**—ADE annually assesses Arizona public schools to identify schools that need improvements, such as either targeted or comprehensive support.²⁵ The Board receives an annual list of the charter schools that have been given an SDSI from ADE and the list is used to determine if a charter school receives 1 of 3 annual Board SDSI designations from its academic framework: “not identified for school improvement,” “identified for

²² A.R.S. §15-241(F) and (G).

²³ The A-F letter grades include multiple measures of educational performance or other relevant indicators of school quality that assess a school's educational impact, such as graduation rates and attendance rates; proficiency on English language arts and math; and the proficiency and academic growth of English language learners.

²⁴ ASBE posts the A-F letter grades on its website each year.

²⁵ ADE must annually measure proficiency rates, performance rates of various subgroups, graduation rates, and other academic indicators to identify which schools need improvement as outlined in the Every Student Succeeds Act.

targeted support,” or “identified for comprehensive support.”²⁶ The Board then also assigns its measure ratings as follows: “Meets,” “Does not meet,” and “Falls far below” the Board’s standards (see Table 2).

Table 2
Board’s SDSI designations and Board’s corresponding measure ratings
As of August 15, 2023

Board's SDSI designations	Board’s corresponding measure ratings
Not identified for improvement	Meets standard
Identified for targeted support	Does not meet standard
Identified for comprehensive support	Falls far below standard

Source: Auditor General staff review of the Board’s academic framework.

The Board’s academic framework also requires the Board to assign an overall rating for each charter school based on the Board’s assigned measure ratings for the A-F letter grade and the SDSI measures.²⁷ For example, if a charter school receives a “C” for its A-F letter grade and is also “identified for targeted support,” the Board will assign an overall rating of “Does not meet standard.” Conversely, if a charter school received an “A” for its A-F letter grade and was “not identified for improvement,” the Board will assign an overall rating of “Exceeds standard.” In addition, the academic framework requires the Board to annually identify whether the charter holder meets the Board’s academic performance expectations, based on whether all of the charter holder’s schools were assigned overall ratings that met or exceeded the Board’s standards.²⁸

If a charter school receives an “F” for its A-F letter grade, statute and rule require the Board to either take action to restore the charter school to acceptable performance or revoke the charter school’s charter (for more information on the corrective and disciplinary actions the Board can take, see page 10).²⁹ In fiscal year 2022, 11 charter schools received an “F” letter grade.

- **Financial Framework**—The financial framework outlines the Board’s performance expectations to ensure that charter holders are financially viable with strong fiscal management practices. The financial framework consists of 6 measures to assess charter holders’ financial performance (for a summary of these 6 measures, see Finding 1, textbox, page 14). The Board uses charter holders’ annual average daily membership (ADM) calculations completed by ADE and information from charter holders’ annual

²⁶ According to Board staff, schools receive the targeted support rating based on consistently underperforming subgroups (major ethnic/racial groups, economically disadvantaged, students with disabilities, and English Language Learners). Schools receive the comprehensive support rating based on a determined criteria used to identify the lowest-performing schools of all schools receiving Title I, Part A funds and/or that are graduating less than 66.7% of their 5-year cohort.

²⁷ The Board’s overall ratings for charter schools consist of “Exceeds,” “Above,” “Meets,” “Does not meet,” or “Falls far below” the Board’s standards.

²⁸ According to the Board’s academic framework, a charter holder meets the Board’s academic performance expectations if all schools operated by the charter holder receive an overall rating of “Meets standard,” “Above standard,” or “Exceeds standard.”

²⁹ A.R.S. §15-241.02(I) and AAC R7-5-602(A).

financial statement audits to assess the charter holders' performance across the 6 measures (see Finding 1, pages 14 through 23, for recommendations we made regarding the Board's financial framework).^{30,31,32} In addition, the framework also includes an overall rating based on the charter holder's 6 measure ratings that identifies a charter holder as being in "Good Standing," "Adequate Standing," or "Intervention." Finally, if a charter holder receives the "Intervention" overall rating, the Board will further assess whether the charter holder will be assigned to intervention or probation status, as follows:³³

- **Intervention status**—Charter holders receive this status when either 1 or more of the 6 measures is rated "Below Standard" in a given year, or the charter holder has remained in "Adequate Standing" for 3 consecutive years. According to rules, if placed on intervention, the charter holder must comply with additional reporting requirements, such as providing an attestation form and submitting quarterly financial reports to the Board.^{34,35} According to the Board, between July 1, 2018 and June 5, 2023, the Board placed 182 charter holders on intervention status with the following results: 93 charter holders exited intervention by meeting the intervention requirements and improving their financial performance; 55 charter holders were moved to probation; 28 charter holders identified for intervention for fiscal year 2022 financial statement audits remained on intervention, pending the Board's review of the fiscal year 2023 financial statement audits; and 6 charter holders closed by surrendering the charter.
- **Probation status**—Charter holders receive this status if they receive an "Intervention" rating for 2 or more consecutive years, indicating that the charter holder has not met the Board's financial expectations. According to rule, a charter holder placed on probation status is required to submit an attestation and quarterly reports to the Board.³⁶ In addition, according to rule, the Board may take actions for charter holders on probation, such as entering into a consent agreement, issuing a notice of intent to revoke a charter, revoking the charter, or denying the charter holder's renewal application.³⁷ According to the Board, between July 1, 2018 and June 5, 2023, the Board placed 55 charter holders on probation with the following results: 36 charter holders exited probation by meeting the probation requirements and improving their financial performance; 9 charter holders identified as on probation for fiscal years 2021 or 2022 financial statement audits remained on probation, pending the Board's review of the fiscal year 2023 financial statement audits; and 10 charter holders closed due to either charter surrender, consent agreement, or revocation.

³⁰ ADM is a statutorily defined measure of student enrollment that is used in the calculation for funding public schools. See A.R.S. §§15-901 and 15-943.

³¹ A.R.S. §§15-183(E)(6) and 15-914 require charter holders to contract for either an annual financial and compliance audit of financial transactions and accounts or a financial statement audit, depending on whether the charter holder is subject to the single audit act amendments of 1996.

³² According to the Board, charter holders are required to submit their annual financial statement audit reports to the Board either by November 15 or March 31 for charter holders that expend more than \$750,000 in federal monies. These audit reports contain the charter holder's financial information, not each charter school's financial information. For example, some charter holders may submit aggregated financial statement audits of the charter holder's financial information for either multiple charters and/or other businesses the charter holder operates. According to the Board, as of March 2023, there were 108 charter holders that submitted aggregated financial statement audits of the charter holder's financial information for either multiple charters and/or other businesses the charter holder operates. Under these circumstances, the Board does not have the ability to review financial information at the charter school level. According to Board staff, this does not cause the Board any difficulties because it is the charter holder, not the charter school, that must be financially viable according to its financial framework, and it is the charter holder that ultimately decides how to use all its financial resources to make financial decisions on behalf of the charter schools it operates.

³³ According to the Board's guidance for the financial intervention process, this process provides an opportunity for charter holders to demonstrate improved performance and allows the Board to take action if these charter holders do not demonstrate improved performance.

³⁴ AAC R7-5-509(A) and (B).

³⁵ The Board's attestation form requires the charter holder to agree that it received the Board's letter notifying it of its intervention or probation status and additional reporting requirements and that the charter holder's board or management (1) have considered the factors that caused its performance, (2) have reviewed its current financial plan and approved any necessary changes, and (3) will, at least quarterly, review its financial performance under the financial performance framework.

³⁶ AAC R7-5-511(A) and (G).

³⁷ AAC R7-5-601(D)(3), (4), and (5), and R7-5-301(I).

- **Operational Framework**—As required by statute, this framework communicates the Board’s operational performance expectations for charter holders, including adhering to all applicable laws and charter requirements.³⁸ The operational framework consists of 9 measures (see examples of these measures in the textbox). For example, 1 of the Board’s measures is used to assess whether the charter holder maintains a safe environment consistent with State and local requirements, including whether the charter holder’s employees, personnel, vendors, and other individuals have been properly fingerprinted and background checked.

The operational framework also outlines various data sources Board staff may use as evidence to assess the charter holders’ operational performance, such as review of annual financial statement audits, information and/or documentation obtained during site visits, and correspondence between the charter holder and the Board. The Board’s operational performance measure ratings are “Meets,” “Does not meet,” or “Falls far below” the Board’s standards.

Examples of the Board’s operational framework measures

- **Education requirements’ compliance**— Does the charter holder adhere to applicable education requirements defined in federal and State law?
- **Annual audits**—Do the charter holder’s annual financial statement audits reflect sound operations?
- **Safe environment**—Is the charter holder maintaining a safe environment consistent with State and local requirements?
- **Board obligations**—Is the charter holder complying with its obligations to the Board?

Source: Auditor General staff review and summary of the Board’s operational framework measures.

Board monitors charter holders’ and charter schools’ compliance and performance through annual evaluations, interval reviews, and site visits

—In accordance with its frameworks, the Board conducts annual evaluations of the charter holders’ and schools’ academic, financial, and operational performance. In addition, the Board performs interval reviews and site visits of charter holders’ schools, as required by rule.³⁹ Specifically:

- **Annual evaluations**—Rule requires the Board to perform annual evaluations of the charter holder’s and charter school’s performance using its 3 performance frameworks, as described above (for more information about our review of the Board’s annual evaluations, see Sunset Factor 2, pages 26 through 28).⁴⁰ The Board posts annual evaluation results on the charter holder’s and charter school’s online dashboards on the Board’s website.
- **Interval reviews**—Statute requires the Board to conduct interval reviews of charter holders’ schools every 5 years.⁴¹ Specifically, rule requires the Board to perform an academic review site visit, which includes a review of various items, such as the school’s curriculum, its systems for monitoring and integrating State academic standards into its curriculum, and documenting student proficiency.⁴² In addition, the Board is required to review the charter holder’s compliance with its charter and other legal requirements, as well as federal and State laws.⁴³ According to Board guidance documents, charter holders must submit various documents for the academic review, such as curriculum guides and/or documentation demonstrating the evaluation and use of student assessment data. Board staff then review the submitted information and are required to meet with the charter holder to discuss any findings and generate a report that identifies

³⁸ A.R.S. §15-183 (R)(2).

³⁹ AAC R7-5-502, R7-5-506(A) and (E).

⁴⁰ AAC R7-5-401(A)(2)(a) and (B), R7-5-402(B), and R7-5-403(B).

⁴¹ A.R.S. §15-183(I)(3).

⁴² AAC R7-5-506(E).

⁴³ AAC R7-5-506(A)(1).

any noncompliance. The charter holder typically has 30 calendar days to bring any identified issues into compliance.⁴⁴ Board staff then issue a final report indicating whether the charter holder addressed the noncompliance. According to Board staff, during fiscal year 2022, all charter holders with an identified deficiency were able to demonstrate that they addressed the noncompliance.

- **Site visits**—Rule requires the Board to conduct site visits of charter holders' schools at various times, including in the first year of operation, during 5-year interval reviews, and in the charter holder's renewal year.^{45,46} During these site visits, Board staff review safety documentation, such as ensuring that the charter school maintains up-to-date fingerprint clearance cards for its staff. In addition, Board staff also observe classroom instruction to determine whether the instructional delivery and classroom resources are consistent with requirements in the charter. For more information about site visits, see Sunset Factor 2, pages 26 through 27.

Board issues corrective and disciplinary action—The Board can take several actions to address charter holders' and schools' noncompliance with their charters, federal or State laws, or other legal requirements. For example, 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 monthly apportionment of State funding if the Board determines at a public meeting that a charter school is not complying with its charter or federal or State laws.⁴⁷ The Board may also issue a notice of intent to a charter holder to revoke its charter, and may also enter into a consent agreement to resolve the areas of the noncompliance or revoke the charter. According to a Board report, in fiscal year 2022, the Board issued 4 notices of intent to revoke, revoked 1 charter, entered into 13 consent agreements, and withheld funds for 2 charter holders.

Organization and staffing

Statute requires the Board to consist of 11 members, including the State superintendent of public instruction or the superintendent's designee.⁴⁸ The Governor appoints the remaining 10 members, who serve 4-year staggered terms:⁴⁹

- 5 members of the general public.⁵⁰
- 2 members of the business community.
- 1 charter school teacher.
- 1 charter school operator.⁵¹
- 1 operator of an alternative charter school, whose stated mission is to serve specific populations of at-risk students.

⁴⁴ According to Board staff, if charter holders fail to bring any identified issues into compliance in 30 days, the Board will provide them a 7-day extension, followed by a 24-hour notification. If the charter holder hasn't come into compliance after that, it will be added to the Board's agenda for its review and possible action.

⁴⁵ AAC R7-5-505(A), R7-5-506(E), and R7-5-301(G), respectively.

⁴⁶ The Board conducts both virtual and in-person site visits.

⁴⁷ ADE is responsible for distributing State monies to charter schools. A.R.S. §15-185(H) requires ADE to withhold monies from a charter school when requested by the charter sponsor.

⁴⁸ In addition, 3 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.

⁴⁹ A.R.S. §15-182(A).

⁵⁰ The 5 members of the general public consist of 2 members who must reside in a public school district where at least 60 percent of the children attending schools in the district meet the eligibility requirements under the national school lunch and child nutrition acts for free lunches, and 1 of whom must reside on an Indian reservation.

⁵¹ Neither statute nor rule defines the term charter school operator.

As of June 2023, 9 of the 10 Governor-appointed positions were filled.⁵²

As of August 2023, the Board had 24 full-time equivalent (FTE) staff member positions, of which 5 were vacant. Board staff positions include an Executive Director, a Deputy Assistant Director, 3 Assistant Directors, program managers, specialists, and liaisons. Board staff are responsible for reviewing new charter and renewal charter applications and sharing their review findings with the Board; receiving and handling complaints; and monitoring charter holders' and schools' academic, financial, and operational performance.

Budget

As shown in Table 3 (see pages 12 through 13), the Board's revenues primarily consist of State General Fund appropriations and ranged from approximately \$1.7 million to \$3.3 million from fiscal year 2021 through fiscal year 2023. Additionally, in fiscal year 2023, the Board estimated it received \$92,000 in application fees (for more information about our review of these fees, see Sunset Factor 2, pages 27 through 28). Finally, in fiscal year 2023, the Board estimated it received \$527,800 from the State Automation Projects Fund to replace the Board's online system.⁵³

As also shown in Table 3 (see pages 12 through 13), the Board's expenditures primarily consisted of payroll and related benefits, estimated to total more than \$1.7 million for fiscal year 2023, and costs to replace its online system, which ranged from approximately \$31,450 in fiscal year 2021 to an estimated \$1.35 million in fiscal year 2023. The Board's other expenditures included professional and outside services, travel, and other operating expenses such as for rent and accounting services.

⁵² The vacant Board position is for an operator of an alternative charter school, whose stated mission is to serve specific populations of at-risk students.

⁵³ The Board's new online system was implemented in May 2023. The Board's new online system will be used for many of the Board's core business processes, including for new and renewal charter applications, site visits, annual audits, financial and academic intervention processes, and for complaint management.

Table 3
Schedule of revenues, expenditures, and changes in fund balances
Fiscal years 2021 through 2023
(Unaudited)

	2021 (Actual)	2022 (Actual)	2023 (Estimate)
Revenues			
Application fees			
New Charter Schools	167,500	76,000	86,000
Arizona Online Instruction	90,000	6,000	6,000
State General Fund appropriations ¹	1,726,226	1,991,270	3,328,200
State Automation Projects Fund ²		86,300	527,800
Total revenues	1,983,726	2,159,570	3,948,000
Expenditures and transfers			
Expenditures			
Payroll and related benefits	1,333,027	1,423,882	1,760,000
Professional and outside services			
Technical review services	111,200	36,500	97,000
New online system costs ²	31,450	124,363	1,348,000
Other ³	66,843	40,772	128,000
Travel		11,365	40,000
Other operating ⁴	270,927	176,147	340,000
Furniture and equipment	14,979	12,305	30,000
Transfers			
Transfers to Department of Administration ⁵		285,266	
Total expenditures and transfers	1,828,426	2,110,600	3,743,000
Net change in fund balances	155,300	48,970	205,000
Fund balances, beginning of year	13,391	168,691	217,661
Fund balances, end of year	\$168,691	\$217,661	\$422,661

¹ In fiscal year 2023, the Board received \$462,000 to increase staff capacity and increase selected salaries for the State-wide employee salary increase. In addition, it received an increase of \$106,100 and 1 FTE position from the State General Fund in fiscal year 2023 for 1 additional Assistant Attorney General. According to the Board, this FTE is paid through an agreement with the Arizona Attorney General's Office. Further, the Board received an additional \$504,900 as part of its fiscal year 2023 State General Fund appropriation for the replacement of its online platform.

² The Board received revenues from the State Automation Projects Fund to replace the Board's online system pursuant to Laws 2021, Ch. 408, §117 (A) and (B). Specifically, \$614,100 was appropriated from the State's Automation Projects Fund, and the Board spent \$31,450 and \$124,363 in fiscal years 2021 and 2022, respectively. As described in footnote 1, the Board received an additional \$504,900 as part of its fiscal year 2023 State General Fund appropriation to replace its online system and spent a total of \$1,348,000 in fiscal year 2023 for its new online system.

³ Other professional and outside services consisted of payments for temporary agency services and legal services to the Arizona Attorney General's Office.

⁴ Other operating costs consisted of various expenditures such as rent, insurance, repairs and maintenance, and accounting services provided by the Arizona Department of Administration's Central Services Bureau. In fiscal year 2023, these costs increased primarily because of the annual licensing and usage costs for its new online system.

Table 3 continued

⁵ Transfers made to the Arizona Department of Administration in fiscal year 2022 were related to an interagency service agreement with the Department to relocate the Board's office.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2021 and 2022, and the Board-provided estimates for fiscal year 2023.



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

Board's financial framework intended to identify charter holders' financial health

As discussed in the Introduction (see pages 7 through 8), the Board's financial framework outlines the expectations and measures the Board uses to annually assess charter holders' financial health using information from the charter holders' financial statement audits and from student enrollment information provided through ADM information from ADE (see textbox for all 6 measures included in the financial framework). Student enrollment represents a key factor in the financial health of a charter holder because, according to the Board, State monies tied to ADM represent the primary funding source for most charter holders.⁵⁴ Additionally, according to the Board's former president, a key outcome of the financial framework should be to prevent charter schools from closing in the middle of the school year.⁵⁵

Summary of Board's financial framework measures

- **Going concern**—Indicates whether a charter holder has an identified financial difficulty that would impact its ability to continue operating.
- **Default**—Indicates whether a charter holder has not made timely payments and has been issued a notice of default by a lender.
- **Unrestricted days liquidity**—Indicates a charter holder's available cash reserve by identifying how many days' expenses can be paid without another influx of cash.
- **Adjusted net income**—Indicates if a charter holder is not operating within available resources, such as whether its expenses exceed its revenues.
- **Lease adjusted debt service coverage ratio**—Considers how easily a charter holder can pay debt, interest, and facility costs as they become due.
- **Average Daily Membership (ADM)**—Indicates whether a charter holder's average annual percent change in student count has increased or decreased for the 3 most recent completed school years.

Source: Auditor General staff summary of Board's Financial Performance Framework—Measures and Summative Ratings Guide.

⁵⁴ The State Equalization Formula, or the formula used for determining State funding to school districts and charter holders, incorporates ADM.

⁵⁵ This statement was made during the Board's August 21, 2018, Financial Framework subcommittee meeting, when the Board was in the process of modifying its financial framework.

The Board's annual assessments are intended to help it determine whether charter holders have sufficient financial resources to continue operating and/or whether the Board needs to take intervening action for charter holders that are not meeting the Board's financial expectations, such as imposing additional financial reporting requirements or, if necessary, revoking the charter (see Introduction, page 8, for more information on the Board's intervention and probation statuses). The Board initially developed its financial framework in 2012 and has made various updates since then. The Board's financial framework measures in place as of August 2023 were implemented in fiscal year 2020.

Board's financial framework does not always identify charter holders' financial difficulties

As explained in the Introduction on pages 7 through 8, the Board's financial framework and measures have identified some charter holders' financial difficulties, and the Board has taken actions to address the identified financial difficulties. For example, according to Board-provided information from its review of charter holders' fiscal year 2022 financial statement audits, 18 charter holders exited intervention by improving their financial performance, 28 charter holders were identified for intervention, 8 charter holders previously identified for intervention were moved to probation, and 1 charter holder previously identified for probation in fiscal year 2021 remained on probation. In addition, in fiscal year 2022, 9 charter holders on probation closed their schools due to charter surrender, consent agreement, or revocation. Further, since the Board implemented its current financial framework in fiscal year 2020, none of its sponsored charter holders have closed during the middle of the school year.

However, prior to the Board implementing its current financial framework, 5 charter holders had closed their schools during the middle of the school year in fiscal years 2019 and 2020, and cited low enrollment as the reason for closure. Although the Board's current financial framework measures were not in place prior to these closures, to determine whether the Board's financial framework would have identified these 5 charter holders' financial difficulties in the years preceding their mid-year closures, and to assess whether the framework would identify similar financial difficulties for other charter holders in the future, we retroactively applied the Board's measures to the 5 charter holders that closed their schools during the middle of the school year.^{56,57}

As shown in Table 4, page 16, our review found that the Board's ADM measure would not have identified any financial difficulties for the 5 charter holders in 2017 and 2018, despite these 5 charter holders citing low enrollment as the reason for closure.⁵⁸ As stated on page 14, student enrollment represents a key factor in the financial health of a charter holder because, according to the Board, State monies tied to ADM represent the primary funding source for most charter holders. Additionally, the overall rating for the Board's 6 financial framework measures would have identified financial difficulties for only 2 of the 5 charter holders in fiscal years 2017 and/or 2018. For example, the Board's financial framework measures would have identified financial difficulties for charter holders A and D because they were not operating within their available resources and/or were not maintaining sufficient income to meet expected debt payments. However, the Board's financial framework measures would not have identified financial difficulties for the remaining 3 charter holders.

⁵⁶ We selected these 5 charter holders because they closed mid-year due to low enrollment.

⁵⁷ We used the Board's ADM measure rating of "Below standard" and its overall rating of "Intervention" to determine whether the Board's framework had identified a financial difficulty (see overall rating definitions in textbox, page 18).

⁵⁸ We used the 5 charter holders' financial statement audits and ADE enrollment calculations to determine whether the Board's current financial framework measures would have identified financial difficulties during fiscal years 2017 and 2018.

Table 4

If in place at the time, Board’s financial measures would not have identified financial difficulties for 3 of 5 charter holders that closed mid-year in fiscal years 2019 and 2020¹

Fiscal years	5 charter holders that closed mid-year									
	Charter A		Charter B		Charter C		Charter D		Charter E	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Board’s framework ADM measure	X	X	X	X	X	X	X	X	X	X
Board’s framework overall rating	X	✓	X	X	X	X	✓	✓	X	X

-  Did not identify financial difficulties
-  Did identify financial difficulties

¹ Charter A is Camino Montessori; Charter B is Desert Springs Academy, Inc.; Charter C is Sonoran Desert School; Charter D is Arts Academy of Scottsdale, Inc.; and Charter E is Pathways KM Charter Schools, Inc.

Source: Auditor General staff analysis of Board financial framework measures compared to 5 charter holders’ financial statement audits and ADM information from fiscal years 2017 and 2018.

Identifying financial difficulties is necessary to hold charter holders accountable and to limit adverse effects of charter school closures

According to a 2023 National Association of Charter School Authorizers (NACSA) report, financial shortcomings can impact a charter school more quickly and significantly than other types of deficiencies, such as academic deficiencies.⁵⁹ Most notably, a charter holder with insufficient resources to continue operations would likely need to close its charter school(s), affecting students and their families. For example, the 5 charter holders that closed their schools during the middle of the school year impacted a total of approximately 130 students enrolled in those schools.⁶⁰ When schools close in the middle of the school year, students’ educational progress could be interrupted and parents/families are required to find openings for their students at other schools that may or may not have the resources needed for these students in the middle of the school year.

In addition, not identifying charter holders’ financial difficulties limits the Board’s ability to take action to help minimize the impact of charter holders’ financial difficulties on students and their families. As shown in Table 5, page 20, the Board’s financial framework measures, if in place at the time, would not have identified any financial difficulties for 3 charter holders, and therefore the Board would not have been able to take appropriate action to help reduce the impacts of mid-year closures on students and their families. Early identification of charter holder financial difficulty through the Board’s financial framework and measures is key as it enables the Board to impose additional financial reporting requirements, require a corrective action plan, or require a charter holder to come into compliance through a consent agreement. If the charter holder does not come into compliance, the Board can also revoke the charter at the end of the school year, lessening the impact of school closures on students and their families by affording them more time to find and enroll at a different school.

⁵⁹ National Association of Charter School Authorizers (NACSA). (2023). *Guide to performance frameworks*. Retrieved 5/24/2023 from <https://qualitycharters.org/wp-content/uploads/2023/03/Guide-to-Performance-Frameworks.pdf>.

⁶⁰ The number of charter school students for 4 charter holders was based on ADE student counts from July 29, 2019, and for 1 charter holder from July 28, 2020. Although 2 charter holders closed mid-year in 2020, the 2019 ADE student count was the most recent information available for 1 of the charter holders.

Board’s ADM measure is not used to independently assess charter holders’ financial health and can obscure substantial changes in student enrollment, and Board’s other measures do not assess financial health across multiple years

We identified 3 factors that limit the Board’s financial framework measures’ ability to identify charter holders’ financial difficulties. This included comparing selected measures from the Arizona Auditor General’s School District Financial Risk Analysis—December 2022 (Auditor General school district financial risk analysis) and Nevada’s State Public Charter School Authority’s Financial Performance Framework Technical Guide (Nevada) that exemplify some of these limiting factors (see textbox for a description of these comparative financial assessments and for information on the selected measures).⁶¹ Specifically:

Summary of comparative financial assessments and measures

Auditor General school district financial risk analysis—An analysis of Arizona school districts’ financial risks conducted by the Arizona Auditor General. Similar to the Board’s financial framework, this analysis focuses on identifying school districts with the highest risk based on their current and potential future financial difficulties.

ADM measure

- **Change in weighted student count**—Indicates a district’s change in weighted student counts over a 1- and 4-year period.¹

Multi-year measures

- **General Fund operating reserve ratio**—Indicates the percent of monies held in in the current year, compared to total spending from the prior year.
- **General Fund change in fund balance**—Indicates the 1-year percentage change in a district’s General Fund balance for each of the most recent 2 years.

Nevada’s financial framework—Similar to the Board’s financial framework, this is a tool used by Nevada’s State Public Charter School Authority to assess that state’s charter schools’ near and long-term financial well-being, health, and performance.

Multi-year measures

- **Aggregated 3-year margin**—Indicates whether the school is operating within its available resources for the 3 most recent years.
- **Cash flow**—Compares changes in a school’s end-of-year cash balances over a 1- and 3-year period.

¹ A.R.S. §15-901 defines different weighted student counts for 2 groups: Group A or Group B. We used Group A weighted student counts, which are used to provide funding for common student needs.

Source: Auditor General staff review and summary of Auditor General school district financial risk analysis, Nevada’s financial framework, and A.R.S. §15-901.

- **Board does not use ADM measure to independently assess a charter holder’s financial health and in certain situations, requires the ADM measure to be adjusted to a better, unsupported rating**—The Board’s method of incorporating its ADM measure rating into its financial framework limits its ability to identify charter holders’ financial difficulties that are linked to low or declining student enrollment. Specifically, if a charter holder has zero “Below standards” or only 1 “Approaches standard” rating for its other 5 measures, the Board’s financial framework requires that the Board adjust the ADM measure

⁶¹ We judgmentally selected measures for comparison from the Auditor General school district financial risk analysis because it annually assesses the financial risk of all Arizona public school districts; and Nevada because it uses an independent charter board to authorize charter schools, similar to Arizona.

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.^{62,63} For example, when we applied the Board’s financial framework to the 5 charter holders, our review found that for 1 charter holder (Charter B), the Board’s ADM measure was rated as “Below standard,” which would have resulted in an overall rating of “Intervention” (see textbox for overall rating definitions). However, the financial framework would have required the Board to adjust the ADM measure to the next highest rating of “Approaches Standard” because the other 5 measures were rated as “Meets standard.” This adjustment would then have also resulted in a change in its overall rating to “Good standing” (see Case Example 1 for Charter B).

Board’s financial performance overall rating definitions

- **Good standing**—no measures rated “Below Standard” and no more than 1 measure rated “Approaches Standard.”
- **Adequate standing**—no measures rated “Below Standard” and 2 or more measures rated “Approaches Standard.”
- **Intervention**—1 or more measures rated “Below Standard” or 3 consecutive years in “Adequate Standing.” If a charter holder receives an “intervention” rating for 2 or more consecutive years, it will be placed on probation and will not meet the Board’s financial performance expectations.

Source: Auditor General staff’s summary of Board’s Financial Performance Framework—Measures and Summative Ratings Guide.

Case Example 1

Board’s framework would not have identified financial difficulties for Charter B because of its practice of adjusting its ADM measure to a better, unsupported rating

Type of ADM measure	Other 5 measure ratings	ADM measure rating	Overall rating	Identified financial difficulty
ADM without Board adjustment	Meets standard	Below standard	Intervention	✓
ADM with Board adjustment	Meets standard	Approaches standard	Good standing	✗

✗	Did not identify financial difficulties
✓	Did identify financial difficulties

Source: Auditor General staff review of Board financial framework and Charter B’s fiscal years 2014 through 2017 financial statement audit and ADM information.

According to the Board, it incorporated the ADM measure rating adjustment in this way to account for charter holders that experience enrollment declines but may respond to those declines by adjusting their budgets or taking other steps to ensure their financial viability for the school year. Although the Board does not independently assess the sufficiency of the specific steps taken to respond to enrollment declines, it reported that it believes charter holders that meet or approach the Board’s standards on the other 5 measures are financially viable and should not be subject to Board action within the context of its financial framework, such as by placing the charter holder on intervention or probation. However, the Board’s financial framework method of automatically increasing its ADM measure rating without

⁶² The Board’s ADM measure ratings are “Meets standard,” “Approaches standard,” and “Below standard.”

⁶³ The Board does not adjust its other 5 measures.

assessing the severity of the enrollment situation and evaluating what other steps the charter holder may be taking to address declining enrollment, either within its financial framework or through its other oversight mechanisms, such as through its operational framework or a targeted review, is inconsistent with NACSA guidance.⁶⁴ Specifically, although a 2023 NACSA report indicates that a rating of “Does not meet standard” on a single measure is not necessarily an indication of financial distress, it states that the charter authorizer should understand the reasons for underperformance on that single measure, assess the severity of the situation, and, if necessary, determine an appropriate course of action.⁶⁵

- Board’s method for calculating its ADM measure obscured substantial changes in student enrollment for the 5 closed charters**—The Board’s method for calculating its ADM measure limits its ability to identify some changes in student enrollment that could indicate a financial difficulty. Specifically, the Board’s ADM measure calculates the percentage change in year-to-year enrollment and then averages the year-to-year percentage changes over a 3-year period. As a result, the Board’s ADM measure obscured changes in student enrollment that occurred over a 3-year period for all 5 charter holders. For example, the Board’s ADM measure would have indicated a 5.7 percent average decrease in student enrollment over a 3-year period for Charter E, despite Charter E having experienced an actual decrease of 86 percent in its number of students during the 3-year period (see Case Example 2 for Charter E). In contrast, as shown in Table 5, page 20, the Auditor General school district financial risk analysis ADM measure, which uses 2 separate data points—change in weighted student counts over a 1-year period and a 4-year period, would

Case Example 2

Board’s ADM measure would not have identified financial difficulties for Charter E despite an 86 percent decrease in students from fiscal years 2014 to 2017



The Board's ADM measure calculates Charter E's student enrollment by averaging the annual percent changes of -26.9, -90.2, and 100, resulting in an average 5.7 percent decrease in students from fiscal year 2014 to 2017, which would indicate no financial difficulties related to student enrollment.¹ However, as shown to the left, Charter E's actual number of students decreased from 42 students in fiscal year 2014 to 6 students in fiscal year 2017—an 86 percent decrease in students during the same time period.²

¹ A 5.7 percent decrease for Charter E would have resulted in an “Approaches standard” measure rating.
² Although the Board's measure rating does not apply to the 86 percent decrease, it would be reasonable to consider the charter holder as underperforming given the 2 consecutive years of significant negative decline, -26.9 and -90.2 percent, respectively.

Source: Auditor General staff review of the Board's financial framework and Charter E's fiscal years 2014 through 2017 financial statement audit and ADM information.

⁶⁴ The Board uses targeted reviews to assess whether charter holders are meeting the performance expectations set forth in the Board's performance frameworks, its charter, contractual agreements with the Board, and federal and State laws.

⁶⁵ NACSA, 2023.

Table 5

If in place at the time, Board’s measures would not have identified as many financial difficulties as the Auditor General school district financial risk analysis or Nevada’s measures for the 5 charter holders that closed mid-year in fiscal years 2019 and 2020

Fiscal years	5 charter holders that closed mid-year									
	Charter A		Charter B		Charter C		Charter D		Charter E	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Enrollment measures										
Board’s framework ADM measure	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Auditor General school district financial risk analysis ADM measure ¹	✗	✗	✓	✓	✗	✓	✓	✓	✓	✓
Board’s 6 framework measures										
Board’s framework overall rating	✗	✓	✗	✗	✗	✗	✓	✓	✗	✗
Multi-year measures										
Auditor General school district financial risk analysis long-term measures ^{2,3}	✓	✓	✓	✗	✓	✗	✓	✓	✓	✗
Nevada 3-year measures ^{4,5}	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗

-  Did not identify financial difficulties
-  Did identify financial difficulties

¹ For the Auditor General school district financial risk analysis measure, Charter A did not show financial difficulties in 2017 and 2018 and Charter C did not show financial difficulties in 2017 as they both had increasing year-to-year enrollment.

² This measure combines 2 Auditor General school district financial risk analysis measures—the General Fund operating reserve ratio measure and the General Fund change in fund balance measure described in textbox, page 17. We determined that a financial difficulty would have been identified for the combined Auditor General school district financial risk analysis measures when at least 1 measure was rated as “High-risk.”

³ The Auditor General school district financial risk analysis long-term measures use 2 years of data for each measure. The Auditor General school district financial risk analysis long-term measures did not identify financial difficulties for Charters B, C, and E in fiscal year 2018 because the Charters all showed improvements in fiscal years 2017 and 2018. However, the measures identified financial difficulties in fiscal year 2017 as they considered the fiscal year 2016 results, which identified financial difficulties.

⁴ This measure combines Nevada’s aggregated 3-year margin and cash flow measures described in textbox, page 17. We determined that a financial difficulty would have been identified for the combined Nevada 3-year measures when at least 1 measure was rated as “Falls far below standard.”

⁵ The Nevada 3-year measures did not identify financial difficulties for Charter E in fiscal years 2017 or 2018 as the Charter only experienced decreasing cash flow, revenue, and change in net assets between fiscal years 2015 and 2016. The Charter showed increases in cash flow, revenue, and change in net assets each year from fiscal years 2016 to 2018.

Source: Auditor General staff analysis of Board financial framework measures, selected Auditor General school district financial risk analysis measures, and selected Nevada financial framework measures compared to 5 charter holders’ financial statement audits and ADM information from fiscal years 2017 and 2018.

have identified financial difficulties in fiscal year 2018 for 4 of the 5 charter holders that closed mid-year in fiscal years 2019 and 2020.^{66,67,68}

- **Board’s other measures do not include multi-year assessments of a charter holder’s financial health, limiting its ability to assess a charter holder’s financial health**—According to a 2023 NACSA report, charter authorizers, such as the Board, should develop a mix of both short-term and long-term measures that are designed to assess a charter holder’s financial health in the upcoming year and in the future.⁶⁹ However, aside from the Board’s ADM measure discussed previously, the Board’s other 5 measures do not incorporate multiple years in their assessment and do not lend themselves to making multi-year assessments. In contrast, both the Auditor General school district financial risk analysis and Nevada measures incorporate multiple years and other assessments of financial risk that leverage multiple years of data that capture fluctuations or volatility in financial performance. As shown in Table 5, page 20, our review found that multi-year and other assessments of financial risk measures would have identified more financial difficulties than the Board’s overall rating for its 6 financial framework measures.⁷⁰ For example, Nevada’s measures would have identified financial difficulties in fiscal years 2017 and 2018 for 4 of 5 charter holders that closed mid-year in 2019 and 2020. This approach provides a broader picture of financial health over time rather than focusing on an individual year, which may not provide a complete picture of a charter holder’s financial health (see Case Example 3 for Charter B, page 22).

In addition, at the end of our review, the Board provided a list of 5 charter holders that had closed at the end of fiscal years 2021 and 2022, citing low enrollment as the reason for closure.^{71,72} The Board applied its financial framework measures to these 5 charter holders. The Board’s financial framework identified financial difficulties for 4 of the 5 charter holders, and all 4 of the charter holders were placed on intervention at some point prior to their closures. However, the Board’s financial framework did not identify any financial concerns for AAEC, which closed at the end of fiscal year 2021. In comparison, Nevada’s cash flow measure and the Auditor General school district financial risk analysis ADM measure would have identified financial concerns for AAEC in fiscal year 2019, 2 years prior to its closing. Further, for 1 of the charter holders the Board placed on intervention, The PEAK School, Inc., the Board’s financial framework did not identify any financial difficulties in fiscal year 2021, the year before its closure, whereas the Auditor General school district financial risk analysis ADM measure would have identified financial concerns for The PEAK School, Inc. in fiscal year 2021.⁷³

⁶⁶ We used the Board’s measure rating of “Below standard” to assess whether the Board’s ADM measure would have identified a financial difficulty. We used the Auditor General school district financial risk analysis’ measure rating of “High-risk” to assess whether the Auditor General school district financial risk analysis’ ADM measure would have identified a financial difficulty for either of its 2 data points.

⁶⁷ The Auditor General school district financial risk analysis ADM measure uses 2 data points, the 1-year weighted student count growth rate and the 4-year weighted student count growth rate.

⁶⁸ For Charter A, the Auditor General school district financial risk analysis ADM measure did not identify financial difficulties in fiscal year 2018 because Charter A’s student enrollment increased in fiscal years 2017 and 2018. However, Charter A’s student enrollment decreased in fiscal year 2019 to a total of 15 students, and it ultimately closed its school midyear in 2019 due to low enrollment.

⁶⁹ NACSA, 2023.

⁷⁰ As previously discussed, we used the Board’s overall rating of “Intervention” to assess whether the Board’s framework would have identified a financial difficulty. We also used the Auditor General school district financial risk analysis’ long-term measure rating of “High-risk” to assess whether the Auditor General school district financial risk analysis’ long-term measures would have identified a financial concern. Finally, we used Nevada’s 3-year measure rating of “Falls far below standard” to assess whether Nevada’s 3-year measures would have identified a financial difficulty.

⁷¹ These 5 charter holders included Arizona Agribusiness and Equine Center, Inc. (AAEC); EduPreneurship, Inc.; New Horizon High School, Inc. d.b.a. Providence High School; The PEAK School, Inc.; and RSD Charter School, Inc. AAEC also holds additional charters and has other charter schools that remain open as of September 2023.

⁷² The Board-provided list included 6 charter holders, but we excluded 1 charter holder from our analysis because it opened and closed in the same fiscal year and thus was not subject to an assessment using the Board’s financial framework.

⁷³ The Board’s financial framework did not identify any financial difficulties for New Horizon High School, Inc. in fiscal year 2021, the year before it closed. Similarly, neither the Auditor General school district financial risk analysis’ nor Nevada’s measures would have identified financial difficulties for New Horizon in fiscal year 2021. However, the Board placed New Horizon High School, Inc. on “Intervention” in fiscal year 2020. As a result, it is unclear how the Board’s action may have impacted these measures not identifying financial difficulties in fiscal year 2021.

Case Example 3

Multi-year measures identified financial difficulties for Charter B, but Board’s measure did not

	Single-year measure	Multi-year measures	
	Board’s Adjusted net income	Auditor General’s ¹ General Fund change in fund balance	Nevada’s Cash flow
2017	✗	✓	✓
2018	✗	✗	✓

✗	Did not identify financial difficulties
✓	Did identify financial difficulties

¹ Auditor General’s refers to Auditor General school district financial risk analysis’ “General Fund change in fund balance” measure.

Source: Auditor General staff review of Board’s “Adjusted net income,” Auditor General school district financial risk analysis’ “General Fund change in fund balance,” and Nevada’s “Cash flow” measures compared to Charter B’s fiscal years 2015 through 2018 financial statement audit information.

The Board’s “Adjusted net income” measure—a single year measure that assesses whether a charter holder is operating within its available resources—did not identify financial difficulties for Charter B in either 2017 or 2018. In contrast, 2 measures that assess performance across multiple years—(1) the “General Fund change in fund balance” measure from the Auditor General school district financial risk analysis and (2) Nevada’s “Cash flow” measure—both identified financial difficulties in 2017. In addition, Nevada’s “Cash flow” measure also identified financial difficulties for Charter B in 2018.

Board reported it plans to further review its financial framework but lacks policies and procedures for doing so

The Board’s rules require the Board to revise its financial framework as needed, and the Board reported that it planned to further review its financial framework sometime in 2023.^{74,75} However, the Board’s rules do not establish more specific criteria for when or why revisions to the framework would be needed, nor has the Board developed written policies and procedures for revising its financial framework, such as guidance regarding what data the Board should collect and analyze when reviewing and revising its framework and measures. The National State Auditors Association recommends that regulatory agencies should establish standardized criteria for their regulatory processes and indicates that policies and procedures are important to help ensure that a program is operating as intended and accomplishes its purpose.⁷⁶

⁷⁴ AAC R7-5-404(A).

⁷⁵ The Board had started a review of its financial framework prior to our audit.

⁷⁶ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 5/24/23 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf.

Recommendations

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

1. Modify its ADM measure to ensure that it identifies substantial decreases in student enrollment.
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 an appropriate course of action, as recommended by NACSA.
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.
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 and revised.
 - b. What data should be collected and analyzed to review and revise the framework and measures.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.



Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Board. The sunset factor analysis includes additional findings and recommendations not discussed earlier in the report.

Sunset factor 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. The Board's key responsibilities include reviewing and approving new and renewal charter applications and overseeing charter holders and the schools they operate to ensure accountability for academic, financial, and operational performance. The Board is 1 of 4 entities that can sponsor charter schools in Arizona. Statute also allows the ASBE, community college districts, and the State's universities to sponsor charter schools (see Introduction, page 3, for more information).⁷⁷

According to a 2022 National Association of Charter School Authorizers (NACSA) report, 45 states have charter school laws and charter school authorizers.^{78,79} As shown in Table 6, page 25, NACSA also indicated that states use several different types of authorizing entities, including school districts, state education agencies, independent charter school boards, municipal government offices, higher education institutions, and private nonprofit organizations. In addition, the 2022 NACSA report indicated that most of the 45 states that authorize charter schools, including Arizona, use 2 or more types of authorizers. Finally, 14 states, including Arizona, have an independent charter school board; and 2 states—Minnesota and Ohio—use private nonprofit organizations as authorizers.⁸⁰

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

The Board met applicable requirements related to its statutory objectives and purposes for some areas we reviewed. Specifically, the Board:

- **Followed statute and rule requirements we reviewed for approving new charters**—Statute allows applicants to apply to the Board for a new charter and requires the Board to approve new charters only for qualified applicants.⁸¹ In fiscal year 2022, the Board approved a total of 6 new charters. We randomly selected and reviewed the application files for 2 of 6 new charters it approved, and our review found that the Board complied with the statute and rule requirements we reviewed for ensuring the Board approved new charters only for qualified applicants. For example, the Board required the applicants to submit detailed education, business, and operational plans; applicable fees; and fingerprints from the applicant's authorized representatives and principals to obtain a State and federal criminal history records check,

⁷⁷ A.R.S. §15-183(C).

⁷⁸ Montana, Nebraska, North Dakota, South Dakota, and Vermont do not have charter school laws.

⁷⁹ National Association of Charter School Authorizers (NACSA). (2022). *Authorizing by the numbers*. Retrieved 5/6/2023 from <https://qualitycharters.org/authorizing-by-the-numbers>.

⁸⁰ NACSA, 2022.

⁸¹ A.R.S. §15-183(C)(2).

Table 6
Charter authorizers by type and number of states
As of July 20, 2022
(Unaudited)

Type of charter authorizer	Number of states that use this type of authorizer
School districts	33
State education agencies	15
Independent charter school boards	14
Higher education institutions	12
Municipal government offices	2
Nonprofit organizations	2

Source: Auditor General staff summary of information from the 2022 NACSA report, Authorizing by the numbers.

as required by statute.⁸² Our review also found that Board staff reviewed these submissions, determined whether they were complete, and notified applicants of the results of this review, as required by rule.⁸³ In addition, the Board contracted for a technical review panel to review applicants' education, business, and operational plans and held interviews with applicants to assess their ability to implement their plans for charter school operation, as required by rule.^{84,85}

- Processed new charter applications we reviewed within required frames**—The Board's rules require it to process and either approve or deny new charter applications within 200 days. This time frame requirement consists of an administrative completeness review time frame of 25 days and a substantive review time frame of 175 days.⁸⁶ Our review of all 6 new charters the Board approved in fiscal year 2022 found that the Board granted the new charters within its overall, administrative, and substantive review time frames.
- Followed statute and rule requirements we reviewed for approving charter renewal applications**—Our review of 3 of 18 randomly selected charter renewal applications that the Board approved in fiscal year 2022 found that the Board complied with the statute and rule requirements we reviewed. For example, the Board ensured that the charter holders either met or made sufficient progress toward meeting the academic, financial, and operational performance framework expectations, as required by statute.⁸⁷ The Board also completed an academic review site visit of the charter holders' school(s), as required by rule.^{88,89}

⁸² A.R.S. §15-183(A), (C)(4), and (CC).

⁸³ AAC R7-5-203(B),(D), and (E).

⁸⁴ AAC R7-5-204 (A) and (H).

⁸⁵ The Board contracts with a national association, and it is the national association that contracts with the individual technical review panel members.

⁸⁶ AAC R7-5-203(A).

⁸⁷ A.R.S. §15-183(l)(1).

⁸⁸ AAC R7-5-301(G).

⁸⁹ The Board's academic review and site visit includes a review of various items, such as the school's curriculum, system for monitoring the integration of State academic standards and system for monitoring, and documenting student proficiency.

- Assessed charter holders’ and schools’ annual academic performance as required by the academic framework**—We reviewed 10 charter holders’ and their associated charter schools’ fiscal year 2022 annual academic evaluation results on the Board’s dashboards to determine whether the Board complied with the requirements outlined in its academic framework (for more information about the Board’s academic framework, see Introduction, pages 6 through 7).⁹⁰ Our review found that the Board accurately posted information on the dashboard and applied the Board’s academic framework requirements for all 10 charter holders and schools we examined. For example, we reviewed several items to ensure the Board posted them accurately on the dashboard, such as the charter school’s A-F letter grade and the associated Board rating; the charter school’s SDSI designation and the associated Board rating; and the Board’s assigned overall rating for the charter school’s academic performance. Finally, we reviewed the charter holder’s annual evaluation results to determine whether the Board accurately determined the charter holder’s performance according to the academic framework requirements.
- Assessed charter holders’ annual operational performance according to the operational framework requirements we tested**—Our review of 5 charter holders’ fiscal year 2022 annual operational evaluation results on the Board’s dashboards found that the Board complied with the operational framework requirements that we tested.⁹¹ For example, we reviewed whether the charter holders’ annual financial statement audits were submitted on time, whether the charter holders’ financial statement audits found any serious or repeat issues, and whether the charter holder was assigned either a new or repeat corrective action plan based on the financial statement audit, and compared this information to the rating the Board assigned on its dashboard to ensure the measure rating was correctly assessed and complied with the requirements in the operational framework.
- Completed required site visits in fiscal year 2022 with 1 exception and performed site visits we observed consistent with requirements**—Rule requires the Board to conduct site visits of charter holders’ schools in the schools’ first year of operation, during the 5-year interval review, or when renewing the charter (see Introduction, page 10, for more information about what these site visits review).⁹² According to Board-provided information, the Board performed 142 of the 143 required site visits in fiscal year 2022 (see textbox). According to the Board, it scheduled, but did not ultimately perform, 1 site visit because the charter holder notified the Board of its intent to surrender its charter in November 2021, and submitted a signed surrender agreement in April 2022.

Board performed all but 1 required site visit in fiscal year 2022

Site visit type	Number required	Number performed
First-year in operation	23	23
Interval reviews	102	101
Renewal year	18	18
Totals	143	142

Source: Auditor General staff summary of the Board’s fiscal year 2022 site visit data and information provided by Board staff.

In addition, our observation of Board staff performing 3 site visits during April 2023 found that Board staff followed rule and Board guidance documents when conducting the site visits.⁹³ For example, Board staff

⁹⁰ We reviewed 10 randomly selected charter schools from the 479 Board-authorized charter schools in fiscal year 2022 for which ADE had provided an A-F letter grade.

⁹¹ As of April 7, 2023, the Board had received and reviewed a total of 363 charter holders’ fiscal year 2022 annual financial statement audits. We selected a stratified random sample of 5 of these 363 charter holders, consisting of 3 of 328 charter holders that met the Board’s financial expectations, 1 of 28 charter holders placed on intervention, and 1 of 7 charter holders placed on probation.

⁹² AAC R7-5-505(A), R7-5-506(E), and R7-5-301(G), respectively.

⁹³ Board guidance documents consist of a checklist, forms, and instructions for Board staff to use during the site visit.

observed teacher instruction delivery and reviewed the teachers' resumes and fingerprint clearance cards, as required by Board guidance documents. Additionally, Board staff met with the charter school leadership to discuss any deficiencies noted during the site visit and sent a written notification advising the charter holder of any further action it needed to take, as required by rule.⁹⁴ Finally, we verified that the Board obtained the necessary documentation from charter schools to demonstrate that any noted deficiencies were addressed, such as copies of teacher fingerprint clearance cards.

However, our review found that the Board could make improvements in other areas. Specifically, the Board:

- **Performed its annual financial evaluation consistent with financial framework requirements, with 1 exception**—We reviewed the 5 charter holders previously discussed in the annual operational evaluation bullet to determine whether the Board complied with the financial evaluation requirements outlined in its financial framework. Specifically, we assessed whether Board staff selected the correct information from the charter holders' annual financial statement audits and ADM information, such as correct amounts for facility leases and cash, and whether Board staff used this information to correctly calculate and then apply measure ratings for the charter holders. Our review of all 5 charter holders found that the Board complied with the requirements in its financial framework, with 1 exception. Specifically, Board staff had incorrectly selected and entered 1 facility lease payment amount into its system for 1 of the charter holders we reviewed. Although the error in this case did not affect the accuracy of the charter holder's rating, the Board is at risk of not identifying or addressing errors, and could therefore incorrectly determine a charter holder's rating, because it lacked a secondary review or other quality control processes.
- **Had not developed a process to regularly evaluate the appropriateness of its 2 fees**—Statute and rule establish the Board's fee amounts for new charter applications (new charter application fee) and for applications to participate in Arizona online instruction (online instruction fee).^{95,96} The Board's new charter application fee is \$6,500 and its online instruction fee is \$3,000 for each grade category involved in the charter amendment request.^{97,98} Statute requires the Board to establish corresponding funds—the New Charter Application Processing Fund and the Charter Arizona Online Instruction Processing Fund—that consist of the fee monies collected by the Board.⁹⁹ Additionally, statute requires that the new charter application fee fully cover the cost of the application review and any needed technical assistance.¹⁰⁰ Further, government fee-setting standards and guidance also state that user fees should be based on the costs of providing a service and reviewed periodically to ensure they are based on these costs.¹⁰¹ However, Board staff spend time processing new charter applications, including performing an administrative review, but those costs are not included in the new charter application fee. In addition, although the Board reported it last reviewed its fees in 2021, the Board had not developed policies and procedures for periodically evaluating the appropriateness of its fees to help ensure they are commensurate with the costs of reviewing and processing these applications. Therefore, the Board is at risk for collecting more or less revenue than it needs from these fees.
- **Used fee monies for allowable purposes but overpaid 1 contractor \$5,600**—As discussed in the previous bullet, statute requires the Board to establish 2 funds that consist of monies collected from each

⁹⁴ AAC R7-5-502(G).

⁹⁵ A.R.S. §15-183(X) and (CC).

⁹⁶ A.R.S. §15-808(A) establishes Arizona online instruction to meet the needs of pupils in the information age and allows State-approved charter authorizers, such as the Board, to sponsor charter schools as online course providers or online schools.

⁹⁷ AAC R7-5-202.

⁹⁸ AAC R7-5-303(D)(2).

⁹⁹ A.R.S. §§15-183(X) and 15-183.01.

¹⁰⁰ A.R.S. §15-183(CC).

¹⁰¹ We reviewed fee-setting guidelines from the Arizona State Agency Fee Commission, the Government Finance Officers Association, the Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review, and the U.S. Government Accountability Office (see Appendix A, page a-2, footnote 146, for more information).

of the Board's 2 fees.¹⁰² Statute also establishes the allowable uses of monies in the funds. For example, statute requires the Board to use New Charter Application Processing Fund monies only for processing new charter applications.¹⁰³ Our review of a total of 11 expenditures from the 2 funds from fiscal year 2020 through fiscal year 2022 found that the Board used all but 1 of the expenditures for allowable purposes.¹⁰⁴ Specifically, our review found 1 expenditure from fiscal year 2020 for which the Board paid a contracted technical review panel a total of \$5,600 for reviewing a new charter application, even though the technical review panel did not conduct a review. According to the Board, the technical review panel did not conduct a review for 1 application because the new charter applicant failed to complete all of the required steps in the application process. However, because of a miscommunication, Board staff who processed the payment mistakenly believed that the review had occurred, and as of August 2023, had not sought the erroneously paid public monies from the technical review panel.¹⁰⁵ Additionally, the Board did not conduct a secondary review of the invoice to identify the error and to ensure it only paid for services that were provided. In December 2022, the Board updated its written guidance for processing invoices, including requiring a secondary review and approval for all invoices.

Recommendations

The Board should:

5. 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.
6. 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.
7. Based on the evaluation conducted in recommendation 6, modify its fees as needed.
8. 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.
9. In conjunction with its assistant attorney general pursue a \$5,600 reimbursement from the technical review team the Board overpaid.

Board response: As outlined in its [response](#), the Department agrees with the findings and will implement the recommendations.

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

As of June 2023, the Board authorized 559 charter schools in the State. Specifically, the Board authorized charter holders to operate charter schools that were physically located in 12 of 15 Arizona counties and authorized 41 online or virtual charter schools that enroll students who live throughout the State (for the number of charter schools per county, see Introduction, Figure 1, page 4).¹⁰⁶ Additionally, the Board monitors Arizona charter holders' and schools' compliance with the Board's academic, financial, and operational frameworks.

We also assessed whether the Board serves the entire State rather than special interests by reviewing its conflict-of-interest practices. The State's conflict-of-interest requirements exist to remove or limit the possibility

¹⁰² A.R.S. §§15-183(X) and 15-183.01.

¹⁰³ A.R.S. §§15-183.01 and 15-183(CC).

¹⁰⁴ We reviewed a total of 11 judgmentally selected expenditures from the 2 funds in fiscal years 2020 through 2022, which included 4 expenditures from the New Charter Application Processing Fund and 7 expenditures from the Charter Arizona Online Instruction Processing Fund.

¹⁰⁵ The Board contracts with a national association that contracts with and pays its technical review panel and to provide additional services, including providing training to the technical review panel. The national association included the \$5,600 as part of a \$95,500 invoice.

¹⁰⁶ Online charter schools use technology to provide curriculum to students virtually, instead of using in-person classroom instruction.

of personal influence from impacting a decision of a public agency employee or public officer. Specifically, statute requires employees of public agencies and public officers, including Board members, to avoid conflicts of interest that might influence or affect their official conduct.¹⁰⁷ These laws require employees and public officers to disclose substantial financial or decision-making interests in a public agency's official records, either through a signed document or the agency's official minutes. Statute further requires that employees/public officers who have disclosed conflicts refrain from participating in matters related to the disclosed interests. To help ensure compliance with these statutory requirements, the Arizona Department of Administration's (ADOA) State Personnel System Employee Handbook and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed by the State at the time of initial hire and anytime there is a change. The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an "affirmative no." In addition, statute requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest and to make this file available for public inspection.¹⁰⁸ Finally, the Board's conflict-of-interest policies and procedures require all employees and Board members to annually complete a conflict-of-interest disclosure form.

In addition, in response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.¹⁰⁹ Our recommendations are based on recommended practices for managing conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.¹¹⁰ For example, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually and that the form include a field for the employee/public officer to provide an "affirmative no," if applicable. These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

However, our review of the Board's conflict-of-interest practices found that the Board had not complied with 1 Board policy requirement and 1 State conflict-of-interest requirement. Specifically, the Board:

- **Did not require all employees to complete an annual conflict-of-interest form**—As noted previously, the Board's conflict-of-interest policies and procedures require all employees to annually complete a conflict-of-interest disclosure form. However, our review of the Board's calendar year 2022 completed annual disclosure forms found that 2 of 20 staff did not complete a disclosure form, as required by Board policy.¹¹¹
- **Did not include all substantial interest disclosures in special file**—The Board did not include all disclosures of substantial interests in its special file, as required by statute. Specifically, the Board's special

¹⁰⁷ A.R.S. §38-503; Arizona Attorney General. (2018). *Attorney General's Agency Handbook 8.2.1*. Retrieved 08/14/2023 from <https://www.azag.gov/office/publications/agency-handbook>.

¹⁰⁸ A.R.S. §38-509.

¹⁰⁹ For example, see Arizona Auditor General reports 21-402 *Higley Unified School District—Criminal indictment—Conspiracy, procurement fraud, fraudulent schemes, misuse of public monies, false return, and conflict of interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

¹¹⁰ Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 8/9/2023 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 8/9/2023 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 8/9/2023 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

¹¹¹ All 11 Board members submitted an annual conflict-of-interest form in calendar year 2022.

file lacked 1 annual conflict-of-interest form from a Board member who had disclosed a substantial interest in calendar year 2022.¹¹²

Additionally, the Board's conflict-of-interest process did not fully align with some recommended practices. Specifically, our review of fiscal year 2022 Board meetings found that Board members refrained from voting on Board matters in 9 instances; however, in 1 of these instances, a Board member did not disclose any reason for not voting in the meeting, such as by explaining whether or not a conflict existed. Further, the Board had not used a conflict-of-interest form that required employees to (1) disclose secondary employment and (2) provide an "affirmative no" if no conflicts exist. However, the Board began using ADOA's conflict-of-interest disclosure form for new employees in April 2023 and for its annual disclosures in July 2023. Further, the Board did not provide periodic conflict-of-interest training for its Board members or staff.

Recommendations

The Board should:

10. Ensure all employees complete an annual conflict-of-interest form, as required by Board policy.
11. 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.
 - 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.
12. Continue to use a conflict-of-interest form that requires disclosure of secondary employment and an "affirmative no" if no conflicts exist.
13. 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.

Board response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

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

Our review of the Board's statutes and rules found that the Board has adopted rules when statutorily required to do so.¹¹³

Sunset factor 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.

The Board has encouraged input from the public before adopting its rules, informed the public of its actions and their expected impacts, and provided public information online as required by rule. Specifically, the Board:

- **Encouraged public input and considered fiscal impacts when adopting rules**—Although statute exempts the Board from some rulemaking requirements, it does require the Board to provide at least 2

¹¹² Three Board members had disclosed substantial interests in calendar year 2022. All 3 employee substantial interest disclosures from calendar year 2022 were included in the special file.

¹¹³ In conducting this assessment, we relied, in part, upon Board-reported information.

opportunities for public comment and to consider the fiscal impact of any proposed rule.¹¹⁴ As part of rulemakings it finalized in December 2020, September 2021, and November 2021, the Board informed the public of the rulemakings, provided opportunities for public input, and described the fiscal impacts associated with proposed rules.¹¹⁵ For the 3 rulemakings, the Board solicited input from the public in its newsletter and on its website. The Board also held public meetings for each of the 3 rulemakings where the public could provide input before the Board adopted its rules. The Board also received public comments for the December 2020 rulemaking and incorporated several comments it received. For example, a stakeholder requested that the time frame requiring charter holders to provide a response to the Board for complaint allegations be extended from 10 to 15 days, and the Board implemented this change.

- **Complied with open meeting law requirements we reviewed**—We attended and reviewed Board meeting materials for 3 Board meetings held between October 2022 and February 2023, and our review found that the Board complied with the open meeting law requirements we reviewed. For example, the Board posted meeting notices and agendas on its website at least 24 hours in advance and uploaded an audio recording of each Board meeting to its website within 3 business days following the meetings.¹¹⁶ Additionally, the Board’s meeting notices and written minutes we reviewed complied with the provisions of open meeting law we assessed, such as providing the date, time, and location of the Board meetings.
- **Provided required information about charter holders and/or schools on its website**—The Board provided the following required information on its website:
 - **Performance Frameworks**—The Board made its academic, financial, and operational performance frameworks available on its website, as required by statute.¹¹⁷
 - **Dashboards**—The Board posted charter holders’ academic, financial, and operational performance and charter schools’ overall academic performance using online dashboards, as required by rule (for more information on the dashboards, see Introduction, textbox, page 5).¹¹⁸
 - **Substantiated complaints**—The Board provided information regarding substantiated complaints related to charter holders and/or schools on the charter holders’ operational performance dashboards, as required by rule.¹¹⁹

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.

Statute requires the Board to exercise general supervision over the charter holders and schools it sponsors.¹²⁰ As part of this responsibility, the Board receives and investigates complaints regarding charter holders and/or schools. Additionally, rule establishes the Board’s jurisdiction and authority for reviewing and handling complaints. For example, rule grants the Board jurisdiction to investigate complaints that allege violations of a charter or contractual obligations with the Board, State or federal laws, or other legal requirements, and grants Board staff the authority to request and review additional information from complainants or charter holders, if needed.¹²¹ Rule also indicates a complaint is substantiated when, based on documentation the Board received

¹¹⁴ A.R.S. §41-1005(G) exempts the Board from posting Notices of Proposed Rulemaking in the Register.

¹¹⁵ The rulemakings we reviewed amended the Board’s complaint-handling process and criteria for its financial framework, such as increasing the requirements for charter holders on probation and intervention status.

¹¹⁶ A.R.S. §§38-431.01(B) and (D), 38-431.02(C) and (G).

¹¹⁷ A.R.S. §15-183(R).

¹¹⁸ AAC R7-5-403(B), R7-5-503(A), and R7-5-504(G).

¹¹⁹ AAC R7-5-507(B)(6).

¹²⁰ A.R.S. §§15-182(E)(1) and 15-183(R).

¹²¹ AAC R7-5-507(B)(1).

through its investigation, it is more likely than not that a violation of the charter, other contractual obligations to the Board, State or federal law, or other legal requirements has occurred.¹²²

We reviewed a sample of 10 of 68 closed complaints the Board received between July 1, 2021 and October 19, 2022, to determine whether the Board complied with its rules for handling complaints.^{123,124} Our review found that the Board generally complied with the complaint-handling requirements outlined in rule that we tested, such as requesting additional information from the charter holder or complainant in a timely manner, forwarding the complaint to the charter holder, and requesting a response.¹²⁵ Our review also found that the Board complied with rule that requires it to record substantiated complaint violations on the charter holder's operational performance dashboard and to make the substantiated complaint information available to the public.¹²⁶ In addition, Board staff did not close a substantiated complaint until the charter holder had an opportunity to respond to the complaint and documented it had addressed the complaint's concern, in accordance with rule.¹²⁷ However, we identified 1 area where the Board was not able to demonstrate that it complied with rule. Specifically, for 2 of the 10 complaint files we reviewed, the Board was not able to provide documentation that it sent complainants a notification of the Board's final action, as required by rule.^{128,129} According to the Board, its staff had called both complainants to inform them of the Board's final actions but did not document or otherwise demonstrate that it had done so.

We also reviewed all 67 complaints the Board received in fiscal year 2022 to determine whether the Board resolved them within 180 days.¹³⁰ However, our review found the Board did not resolve 13 of the 67 complaints within 180 days, including 1 complaint that had been open for 505 days as of May 31, 2023 (see textbox, page 33).¹³¹ For the remaining 12 complaints, the Board took between 210 and 331 days to resolve them.¹³² Examples of allegations we reviewed and the Board received against charter schools included not providing requested education records for more than 30 days, suspending a student without a warning, limiting a parent's access to the school without a valid reason, and withdrawing a student from a charter school without a valid reason. When the Board does not resolve these types of complaints against charter holders or charter schools in a timely manner, students and/or their parents could be negatively impacted, in particular if the allegations are substantiated. At the time of our review, the Board had not developed a method or process to monitor complaint resolution timeliness but reported that its new online system includes the necessary functionality to do so.

¹²² AAC R7-5-507(B)(6).

¹²³ Rules for processing complaints are outlined in AAC R7-5-507.

¹²⁴ Our sample included 5 randomly selected complaints received by the Board in fiscal year 2022, and 5 judgmentally selected complaints to include all 4 substantiated complaints received by the Board between July 1, 2021 and October 19, 2022, and 1 complaint that the Board had already provided to us for review.

¹²⁵ AAC R7-5-507(B).

¹²⁶ AAC R7-5-507(B)(6).

¹²⁷ AAC R7-5-507(B)(7)(a).

¹²⁸ AAC R7-5-507(B)(9).

¹²⁹ For 1 complaint, the complainant alleged that a volunteer had access to confidential school communications. In the other, the complainant alleged that a charter holder inappropriately limited a parent's access to the school. The Board substantiated both complaints.

¹³⁰ We have determined that Arizona regulatory boards should investigate and resolve complaints within 180 days of receiving them.

¹³¹ For the 1 complaint that remained open for 505 days as of May 31, 2023, the Board reported that due to the nature and complexity of the complaint allegation, its staff had to conduct full academic system reviews of 17 online programs. The Board reported that those reviews have been completed.

¹³² Nine of the 12 complaints were related to 1 charter holder and resulted in 2 substantiated complaints requiring the charter holder to implement corrective action that the Board reported needed to be completed before it could close all of the complaints. Additionally, according to the Board, Board staff did not see 2 of the 12 complaints due to a "glitch" in the Board's prior online system. Finally, for the remaining complaint, the Board reported that it needed to obtain a resolution regarding the complaint from the U.S. Office of Civil Rights, and that the U.S. Office of Civil Rights estimated it might take at least 6 months to provide the resolution.

Board did not resolve 13 complaints in 180 days



Our review found the Board did not resolve **13 of the 67** complaints within 180 days.

Source: Auditor General staff review of the Board's fiscal year 2022 complaint information provided by Board staff.

Recommendations

The Board should develop and implement policies and procedures to:

14. 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.
15. Resolve complaints within 180 days.
16. Track and monitor the progress of a complaint's resolution to help ensure complaints are resolved within 180 days.

Board response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Sunset factor 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(A)(1) requires the Attorney General to act as the Board's legal advisor and to provide all legal services the Board requires. The Board's enabling legislation, A.R.S. §15-181 et seq., does not include criminal penalties or other prosecutable violations; however, the Board refers complaints alleging school involvement in criminal or prosecutable violations of other State or federal law to the Attorney General's Office for investigation and possible prosecution.

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

The Board reported that it previously addressed deficiencies in its enabling statutes to better support the work of the Board. For example:

- Laws 2018, Ch. 285, revised the Board's authority to allow it to take disciplinary action against charter holders for financial reasons, including if the charter holder does not meet the Board's performance expectations set forth in the financial framework or any improvement plans.
- Laws 2022, Ch. 201, made the following changes to the Board's statutes:

- Expanded fingerprinting requirements for persons engaged in instructional work, such as teachers, speech therapists, or principals, to also include all charter representatives, governing body members and officers, directors, and members/partners of the charter holder.
- Required charter holders to address problems associated with a planned revocation 30 days prior to the Board taking the action to revoke. Prior to this change, statute required the Board to provide the charter holder 60 days to address problems associated with its revocation only after the Board took action to revoke the charter.

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

We did not identify any needed changes to the Board’s statutes.

Sunset factor 10: The extent to which the termination of the Board would significantly affect the public health, safety, or welfare.

Terminating the Board could affect public welfare if its responsibilities were not transferred to or assumed by another entity. As of June 30, 2023, the Board authorized 413 charter holders to operate 559 charter schools in the State. According to the Board, during the 2022-2023 school year, these schools provided instruction to more than 226,000 students. If the Board were terminated, these charters would likely be voided, which could result in charter school closures. If the State determined to keep these schools open and operating but did not transfer the Board’s responsibilities to another entity, these students would attend schools without an oversight body to monitor the schools’ performance. For example, without the Board or a similar entity to monitor and hold these charter holders accountable to academic, financial, and operational performance expectations and to take corrective or disciplinary actions when needed, students attending charter schools may not be provided a learning environment that will improve student achievement and keep students safe. Specifically, in our 3 site visit observations in April 2023, we observed Board staff identify and require corrective action for notable deficiencies, such as charter schools not maintaining the required fingerprint clearance cards for teachers.

Sunset factor 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.

Our review of the Board’s level of regulation compared to that of independent state charter boards in 3 other states—Georgia, Nevada, and Utah—found a similar level of regulation in 4 areas.¹³³ Specifically:

- **Application information requirements**—Similar to the Board, all 3 states require the following information from new charter applicants:
 - Educational plans, which include information about the educational philosophy, target population, course offerings, graduation requirements, and school calendar.
 - Operational plans, which include information about the school governing body, management and operations, education service providers, and contracted services.
 - Business plans, which include information about marketing and student enrollment, personnel, a start-up budget, and 3-year or 6-year operational budget.
 - Verifiable proof of funds listed in the start-up budget.
- **Annual evaluations of the academic, financial, and operational frameworks**—Similar to the Board, all 3 states perform annual reviews of their charter holders/schools to evaluate whether the charter holder/school has complied with the requirements in each State’s respective academic, financial, and operational frameworks.

¹³³ We selected these states because, according to the National Alliance for Public Charter Schools, they had the second, third, and fourth highest number of students enrolled in charter schools authorized by an independent state charter board—trailing only Arizona.

- **Conduct site visits of charter holders' schools**—Similar to the Board, all 3 states conduct site visits of charter holders' schools, but each state performs the site visits at different intervals. Specifically, Arizona rules require it to perform site visits in the first year, at 5-year intervals, and during the charter renewal year.¹³⁴ Georgia reported performing site visits during the first year, when a school's facilities are added/changed, and during the renewal year. Nevada reported performing site visits at least every other year. Utah reported performing site visits as needed and as part of its 5-year comprehensive review.
- **Fingerprinting of charter school teachers**—Similar to the Board, all 3 states require teachers and staff who work directly with students to receive a fingerprint-based criminal history background check.

However, our review identified some variation between the 4 states in requiring charter schools to hire certified teachers.¹³⁵ Specifically:

- Arizona charter schools are not required to hire State-certified teachers.¹³⁶
- Georgia reported that charter schools are not required to hire state-certified teachers, with the exception of special education teachers, who must be certified.
- Nevada reported that it requires certain teachers to be certified, including all core content, special education, and English language learner teachers. It also requires that 80 percent of the teachers on each school campus be certified.
- Utah reported that it does require charter schools to hire state-certified teachers.

Sunset factor 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 private contractors for various services, including for reviewing new charter application documents, including the academic, business, and operational plans, reviewing charter amendments, and for developing its new online system.¹³⁷

Our review of the Board's use of private contractors compared with the use of private contractors in 3 other states—Georgia, Nevada, and Utah—found that Arizona generally used contractors to a greater extent than these 3 other states (see Table 7, page 36). We did not identify any additional areas where the Board should consider using private contractors.

¹³⁴ Additionally, in Arizona, the Board performs second-year site visits and reported that it also performs unannounced site visits and targeted visits, as needed.

¹³⁵ Certified teachers must meet various State requirements for teaching, such as completing educational courses and passing State-mandated examinations.

¹³⁶ Although charter schools are not required to hire State-certified teachers in Arizona, some charter holders may have policies related to teacher certification. However, the Board and ADE do not track teacher certification policies for charter holders. Therefore, we were unable to evaluate the academic performance of charter schools that primarily hire certified teachers as compared to those that do not as measured by the A-F letter grades.

¹³⁷ The Board reported it contracts for the review of 2 of its charter amendments—the Change in Charter Control and the Arizona Online Instruction charter amendments.

Table 7
Contract usage by Arizona, Georgia, Nevada, and Utah
As of March 28, 2023
(Unaudited)

Types of services provided by contracts	Arizona	Georgia	Nevada	Utah
Review of charter applications	✓	✓	✓	✓
Services provided by national associations, such as trainings, due diligence reports, etc.	✓	✓	✓	✓
Development/maintenance of agency's database(s)	✓	✗	✓	✗
Strategic planning ¹	✓	✗	✓	✗
Research of local, state, and federal law	✓	✗	✓	✗
Review of charter amendments	✓	✗	✗	✗
Technical assistance for financial report reviews, as needed	✓	✗	✗	✗

¹ In Arizona, strategic planning included various services, such as consulting services and training for strategic planning.

Source: Auditor General staff summary of information provided by Arizona, Georgia, Nevada, and Utah independent charter board staff, as of March 28, 2023.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 16 recommendations to the Board

The Board should:

1. In making further revisions to its financial framework, modify its ADM measure to ensure that it identifies substantial decreases in student enrollment (see Finding 1, pages 14 through 23, for more information).
2. In making further revisions to its financial framework, 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 an appropriate course of action, as recommended by NACSA (see Finding 1, pages 14 through 23, for more information).
3. In making further revisions to its financial framework, 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 (see Finding 1, pages 14 through 23, for more information).
4. In making further revisions to its financial framework, 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 and revised.
 - b. What data should be collected and analyzed to review and revise the framework and measures (see Finding 1, pages 14 through 23, for more information).
5. 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 (see Sunset Factor 2, pages 27 through 28, for more information).
6. 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 (see Sunset Factor 2, pages 27 through 28, for more information).
7. Based on the evaluation conducted in recommendation 6, modify its fees as needed (see Sunset Factor 2, pages 27 through 28, for more information).
8. 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 (see Sunset Factor 2, pages 27 through 28, for more information).
9. In conjunction with its assistant attorney general pursue a \$5,600 reimbursement from the technical review team the Board overpaid (see Sunset Factor 2, pages 27 through 28, for more information).
10. Ensure all employees complete an annual conflict-of-interest form, as required by Board policy (see Sunset Factor 3, pages 28 through 30, for more information).

11. 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.
 - 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 (see Sunset Factor 3, pages 28 through 30, for more information).
12. Continue to use a conflict-of-interest form that requires disclosure of secondary employment and an “affirmative no” if no conflicts exist (see Sunset Factor 3, pages 28 through 30, for more information).
13. 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 (see Sunset Factor 3, pages 28 through 30, for more information).
14. 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 (see Sunset Factor 6, pages 31 through 33, for more information).
15. Resolve complaints within 180 days (see Sunset Factor 6, pages 31 through 33, for more information).
16. Track and monitor the progress of a complaint’s resolution to help ensure complaints are resolved within 180 days (see Sunset Factor 6, pages 31 through 33, for more information).



Scope and methodology

The Arizona Auditor General has conducted a performance audit and sunset review of the Board pursuant to a December 17, 2020, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the audit's objectives. These methods included reviewing the Board's statutes, rules, and policies and procedures; interviewing Board members and staff; and reviewing Board records and information from the Board's website. In addition, we used the following specific methods to meet the audit objectives:

- To determine whether the Board's financial framework would effectively identify charter schools in financial distress, we reviewed the Board's financial framework, the Auditor General school district financial risk analysis, and Nevada's financial framework.¹³⁸ In addition, we judgmentally selected 5 charter holders that closed their schools mid-year, due to low enrollment, in fiscal years 2019 and 2020. Although the Board's current financial framework measures were not in place in fiscal years 2017 and 2018, we retroactively applied the measures to these 5 charter holders to determine whether the Board's measures would have identified financial concerns in fiscal years 2017 and 2018, prior to the closures. To do so, we used the 5 charter holders' financial statement audits and ADE enrollment calculations and applied the selected measures from the Board, the Auditor General school district financial risk analysis, and Nevada. Then we applied the Board's, the Auditor General school district financial risk analysis', and Nevada's coinciding measure ratings and/or overall rating.¹³⁹ In addition, we reviewed information from the National Association of Charter School Authorizers' and the National State Auditors Association.^{140,141} We also received a Board-provided list of 5 charter holders that closed during fiscal years 2021 and 2022 due to low enrollment.¹⁴² We judgmentally selected 3 of these 5 charter holders and applied the selected measures from the Auditor General school district financial risk analysis and Nevada.¹⁴³ To do so, we used the 3 charter holders' financial statement audits and ADE enrollment calculations between fiscal years 2019 and 2021, as applicable. In addition, we obtained the charter holders' past financial framework results from the Board's online financial dashboard.

¹³⁸ We judgmentally selected measures from the Auditor General school district financial risk analysis and from Nevada because our Office annually assesses the financial risk of Arizona's school districts and because Nevada uses an independent charter board to authorize charter schools, similar to Arizona.

¹³⁹ For a list and description of the measures we used for comparison to the Board's financial framework measures, see Finding 1, textbox, page 17.

¹⁴⁰ National Association of Charter School Authorizers. (2023). *Guide to performance frameworks*. Retrieved 5/24/2023 from <https://qualitycharters.org/wp-content/uploads/2023/03/Guide-to-Performance-Frameworks.pdf>.

¹⁴¹ National State Auditors Association (NSAA). (2004). *Carrying out a state regulatory program: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 5/24/23 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2004_Carrying_Out_a_State_Regulatory_Program.pdf.

¹⁴² The Board-provided list included 6 charter holders, but we excluded 1 charter holder from our analysis because it opened and closed in the same fiscal year and thus was not subject to an assessment using the Board's financial framework.

¹⁴³ We judgmentally selected the 3 of the 5 charter holders provided by the Board because they were in "Good standing" in the year prior to their closures, according to the Board's overall rating from its financial framework. The other 2 charter holders were in "Intervention" in the year prior to their closures.

- To evaluate whether the Board's review and approval of charter and renewal charter applications complied with statute and rule requirements, we reviewed 2 randomly selected applications from the 6 new charter applications the Board approved in fiscal year 2022. In addition, we reviewed 3 randomly selected applications from the 18 renewal charter applications the Board approved in fiscal year 2022. Finally, to evaluate whether the Board processed the new charter applications in the time frames required by rule, we reviewed all 6 new charter applications the Board received in fiscal year 2022.
- To evaluate whether the Board assessed charter holders' and charter school's annual academic, financial, and operational performance according to requirements in the Board's frameworks, we reviewed the following:
 - **Annual academic evaluation**—We reviewed 10 charter holders' and their associated charter schools' fiscal year 2022 annual academic evaluation results on the Board's dashboards to determine whether the Board complied with the requirements outlined in its academic framework.¹⁴⁴ Our work included reviewing the Board's academic framework and ADE A-F letter grades and SDSI reports for fiscal year 2022.
 - **Annual operational evaluation**—We reviewed 5 charter holders' fiscal year 2022 annual operational evaluation results on the Board's dashboards to determine whether the Board complied with the requirements outlined in its operational framework that we tested.¹⁴⁵ Our work included reviewing the Board's operational framework, charter holder's fiscal year 2022 financial statement audit information, Board corrective action plans, when applicable, and operational dashboard information.
 - **Annual financial evaluation**—We reviewed the same 5 charter holders discussed in the operational evaluation bullet above to determine whether the Board complied with the requirements outlined in its financial framework. Our work included reviewing the 5 charter holders' fiscal year 2022 financial statement audits, ADE calculations, and financial dashboard information.
- To evaluate whether the Board performed its site visits in accordance with rule and policy requirements, we observed Board staff performing 3 site visits in April 2023. In addition, we reviewed the Board's fiscal year 2022 site visit tracker to determine how many required site visits the Board performed in fiscal year 2022.
- To evaluate the Board's fee-setting process, we reviewed government fee-setting standards and guidance.¹⁴⁶ In addition, to determine if the Board used fee monies according to statute and rule requirements, we reviewed a total of 11 judgmentally selected expenditures from the Board's 2 funds—the New Charter Application Processing Fund and the Charter Arizona Online Instruction Processing Fund in fiscal years 2020 through 2022, which included 4 expenditures from the New Charter Application Processing Fund and 7 expenditures from the Charter Arizona Online Instruction Processing Fund.
- To assess the Board's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statute and ADOA requirements, recommended practices, and the

¹⁴⁴ We reviewed 10 randomly selected charter schools from the 479 Board-authorized charter schools in fiscal year 2022 for which ADE had provided an A-F letter grade.

¹⁴⁵ As of April 7, 2023, the Board had received and reviewed a total of 363 charter holders' fiscal year 2022 annual financial statement audits. We selected a stratified random sample of 5 of these 363 charter holders, consisting of 3 of 328 charter holders that met the Board's financial expectations, 1 of 28 charter holders placed on intervention, and 1 of 7 charter holders placed on probation.

¹⁴⁶ Arizona State Agency Fee Commission. (2012). *Arizona State Agency Fee Commission report*. Phoenix, AZ; U.S. Government Accountability Office. (2008). *Federal user fees: A design guide*. Washington, DC. Retrieved 3/22/2022 from <https://www.gao.gov/assets/gao-08-386sp.pdf>; Michel, R.G. (2004). *Cost analysis and activity-based costing for government*. Chicago, IL: Government Finance Officers Association; Mississippi Joint Legislative Committee on Performance Evaluation and Expenditure Review. (2002). *State agency fees: FY 2001 collections and potential new fee revenues*. Jackson, MS. Retrieved 3/22/2022 from <https://www.peer.ms.gov/reports/rpt442.pdf>.

Board's conflict-of-interest process and signed disclosure forms for Board members appointed and staff working for the Board during calendar year 2022.^{147,148}

- To assess the Board's compliance with the State's open meeting law requirements, we attended 3 meetings held by the Board between October 2022 and February 2023, and reviewed the meeting notices, agendas, and minutes from these 3 meetings.
- To evaluate the Board's processes for resolving public complaints we reviewed 10 of 68 closed complaints the Board received between July 1, 2021 and October 19, 2022. This review included a comparison of rule requirements to the Board's process documented in its complaint files to assess the Board's compliance. To evaluate the timeliness of complaint resolutions, we reviewed all 67 complaints the Board received in fiscal year 2022 to determine whether the Board resolved them within 180 days. This included review and validation of the dates in the Board's complaint-tracking document for fiscal year 2022, which we determined were reliable for audit purposes.
- To obtain additional information for the sunset factors, we reviewed a 2022 NACSA report regarding the types of charter school authorizers other states use and the Arizona Administrative Register regarding the Board's rulemakings.¹⁴⁹ We also judgmentally selected 3 states—Georgia, Nevada, and Utah—to compare to the Board's level of regulation and use of private contractors for various operations and services.¹⁵⁰
- To obtain information for the Introduction, we compared unaudited Board-provided charter school addresses to U.S. Postal Office zip code information to determine how many charter schools are located in each county.¹⁵¹ We also reviewed a 2022 report from the National Alliance for Public Charter Schools and the Board's academic, financial, and operational frameworks.¹⁵² Additionally, we reviewed the USFR, the USFRCS, the USFR and USFRCS compliance questionnaires, and the legal compliance questionnaire for charters that received an exception to the USFRCS. Finally, we reviewed Board-provided staffing information and compiled and analyzed unaudited information from the AFIS *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2021 and 2022, and Board-provided information for fiscal year 2023.

Our work on internal controls included reviewing relevant policies and procedures for ensuring compliance with and/or adherence to Board statutes, rules, recommended practices, and credible industry standards, and where applicable, testing compliance with or adherence to these requirements and guidance. We reported our conclusions on internal control deficiencies in Finding 1 and in our responses to the statutory sunset factors.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

¹⁴⁷ For example, see Arizona Auditor General reports 21-402 *Higley Unified School District—Criminal indictment—Conspiracy, procurement fraud, fraudulent schemes, misuse of public monies, false return, and conflict of interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

¹⁴⁸ Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2022). *Recommendation of the council on OECD guidelines for managing conflict of interest in the public service*. Paris, France. Retrieved 8/9/2023 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource*. Arlington, VA. Retrieved 8/9/2023 from <https://www.ethics.org/wp-content/uploads/2021-ECI-WP-Conflicts-of-Interest-Defining-Preventing-Identifying-Addressing.pdf>; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 8/9/2023 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>.

¹⁴⁹ National Association of Charter School Authorizers. (2022). *Authorizing by the numbers*. Retrieved 5/6/2023 from <https://qualitycharters.org/authorizing-by-the-numbers>.

¹⁵⁰ We selected these states because, according to the National Alliance for Public Charter Schools, they had the second, third, and fourth highest number of students enrolled in charter schools authorized by an independent state charter board—trailing only Arizona.

¹⁵¹ We obtained the U.S. Postal Office zip code information June 20, 2023, from <https://www.unitedstateszipcodes.org/zip-code-database>.

¹⁵² The National Alliance for Public Charter Schools. (2022). *The Data Dashboard*. Retrieved 6/13/23 from <https://data.publiccharters.org>.

We conducted this performance audit of the Board 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.

We express our appreciation to the Board, its executive director, and its staff for their cooperation and assistance throughout the audit.

BOARD RESPONSE

Arizona State Board for Charter Schools

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***Re: Arizona State Board for Charter Schools– Performance Audit and Sunset Review Audit;
A.R.S. § 41-3024.15.***

September 22, 2023

Dear Ms. Perry,

Thank you for providing the Arizona State Board for Charter Schools (“Board”) the opportunity to respond to the recent performance and sunset audit from your office. We have appreciated the opportunity to work with your team for the past year.

Attached is the Board’s response to the audit recommendations as approved by the Board on September 20, 2023.

As discussed in the response, the Board has already addressed many of the findings by developing written policies and procedures, updating existing policies and procedures, and with the deployment of Board’s newly implemented online system, ASBCS Online. ASBCS Online went live in May 2023 which automates many processes that have historically been done manually and allows staff to better track and communicate processes and requirements. Additionally, the Board has moved forward with seating a Financial Framework Subcommittee to further enhance its measures under its existing Financial Framework.

The Board and Board staff look forward to meeting with the Committees of Reference.

Sincerely,

Ashley Berg, Executive Director
Arizona State Board for Charter Schools

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

Recommendation 1: In making further revisions to its financial framework, the Board should modify its ADM measure to ensure that it identifies substantial decreases in student enrollment.

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

Response explanation: At its August 2023 meeting, the Board established a Financial Framework Subcommittee to recommend to the full Board the changes that should be made to the financial framework, focusing on the framework's measures, measure targets and measure calculations. For the past few years, the Board has been collecting data and feedback on the measures. The experience, data and feedback obtained from the past four review cycles completed under the financial framework provide the foundation for the Subcommittee to now evaluate the framework's measures. As part of its review, the Subcommittee will also consider the report issued and recommendations made by the Auditor General and will ultimately decide, through a public process, the changes that will be recommended to the full Board. In addition, the Subcommittee's deliberations will take into account the conditions under which the Board operates. Unlike the Auditor General's office and the Nevada State Public Charter School Authority, the Board, under its financial framework, is ultimately making disciplinary decisions, including revoking charters and closing schools. All final decisions of the Board are appealable, including revocation and closure decisions, as charter holders must be afforded due process. In this context, it is absolutely necessary that the metrics used under the financial framework fully depict and legally support a financial situation appropriate for revocation and closure and provide data to back that decision.

Recommendation 2: In making further revisions to its financial framework, 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 an appropriate course of action, as recommended by NACSA.

Board response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented

Response explanation: The Board will put a formalized process in place that includes communications and efforts already occurring outside of the financial framework. The formalized process will be separate from the Board's financial framework.

Recommendation 3: In making further revisions to its financial framework, the Board should, 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.

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

Response explanation: See Recommendation 1.

Recommendation 4: In making further revisions to its financial framework, the Board should develop and implement written policies and procedures for modifying or updating its financial framework that address:

Recommendation 4a: How frequently the framework and measures should be reviewed and/or revised, including factors that would require the framework to be reviewed and revised.

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

Response explanation: In December 2018, the Board approved its financial framework, which includes measures, overall ratings, intervention processes and financial reviews of schools in their first year of operation. On July 8, 2019, the Board adopted the administrative rules to implement the overhauled financial framework. The FY 2019 audits, which were received by the Board in FY 2020, were the first reviewed under the new financial framework. The Board has used a continual improvement process, in real time, to update its framework as needed improvements are identified. To allow for multiple years of quantitative and qualitative performance data and feedback to be collected, as well as to avoid insufficiently considered or piecemeal responses, the Board focused on improving and streamlining the administrative processes while waiting for more years of performance results. In accordance with A.A.C. R7-5-404(A), on November 20, 2020, April 12, 2021, August 9, 2021, November 22, 2021 and October 17, 2022, the Board considered and approved changes to its financial framework related to the submissions required of charter holders in financial intervention, Board staff's review of charter holder submissions, the criteria used in determining a charter holder that does not meet the Board's financial performance expectations, and the first year financial reviews. On September 1, 2023, Board staff released for the first opportunity for public comment a draft policy and procedures formalizing the Board's practices for revising not only the Board's financial framework, but also the Board's academic and operational frameworks.

Recommendation 4b: What data should be collected and analyzed to review and revise the framework and measures.

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

Response explanation: See 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.

Recommendation 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.

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

Response explanation: In August 2023, Board staff developed internal policy and procedures that will help ensure that the financial dashboards used by the Board in its decision-making, and made available through the Board's online portal, accurately reflect charter holders' performance under the Board's financial framework. The policy and procedures will be implemented with Board staff's review of the fiscal year 2023 audits, which the Board will receive in fiscal year 2024.

Recommendation 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.

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

Response explanation: In September 2023, Board staff developed an internal Fee Review Policy outlining procedures for reviewing fees. The policy includes timeframes, data points, and action items for the review of fees. Per the policy, this review will begin in FY2025, to allow FY2024 fees and expenditures to be considered in the review.

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

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

Response explanation: See Recommendation 6

Recommendation 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.

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

Response explanation: In 2022, Board staff adopted new procedures for processing invoices. When invoices are submitted for processing, the individual processing the payment must send the invoice for two signatures. In the case of new charters, this includes the individual involved in the initial contracting process and new charter cycle, as well as the executive director to ensure all parties agree that the invoiced amount is accurate. These procedures have been followed for contracted services since the policy was put in place.

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

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

Response explanation: The Board and the Board's legal counsel are working with the National Association for Charter School Authorizers to resolve this issue. Board staff will conduct this process based on guidance it receives from its Assistant Attorney General.

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

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

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

Response explanation: In fiscal year 2023, the Board updated its policy requiring Board staff and Board members to complete a new conflict of interest form starting at the beginning of each fiscal year. The Assistant Director of Agency and Charter Holder Operations is responsible for this task on July 1 of each new fiscal year. Board staff new hires and newly appointed Board members are provided and required to complete the conflict form upon hiring or appointment.

Recommendation 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:

Recommendation 11a: Store all substantial interest disclosures in a special file available for public inspection, as required by statute.

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

Response explanation: The Board has previously and will continue to maintain all substantial interest disclosures in electronic files accessible to staff for public inspection if a public records request is submitted to the Board. The substantial interest disclosures will also be included in a separate special file.

Recommendation 11b: Require Board members to publicly disclose their reason(s) for refraining from voting on Board matters, including fully disclosing any substantial interest that exists.

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

Response explanation: Board members have been informed and legal counsel is aware of this requirement and will ensure the reason for refraining from participating and voting

during the Board meetings is disclosed so that any substantial interests are noted in Board records.

Recommendation 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.

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

Response explanation: The Board previously utilized an ADOA conflict of interest form and secondary employment form that were on separate documents. The Board has implemented the use of the new form that combines the ADOA conflict of interest and secondary employment disclosures into one document.

Recommendation 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.

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

Response explanation: Board staff will comply with providing periodic training on conflict of interest requirements, process, and the disclosure form to Board staff and Board members. Beginning with this fiscal year, a conflict of interest training will be provided in the month of September to Board staff and Board members. The training will be recorded for staff and Board members to access as needed and will be part of the onboarding process for new staff and new Board members joining the agency within the current fiscal year. Training on conflict of interest will happen annually and the same process will be followed as this current fiscal year.

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.

Recommendation 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.

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

Response explanation: Board staff will continue to comply with the complaint-handling requirements outlined in Board rule and its policies and procedures. Board staff will develop a more detailed complaint policy outlining complaint procedures. Board staff has already implemented a new online platform that will better support the complaint process and has automated processes which, historically, were tracked and completed manually.

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

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

Response explanation: Most complaints are closed within 10 days. When the issues alleged in the complaint demonstrate a breach of the charter contract, rule, or law the issue is brought into compliance quickly, usually within 30 calendar days. See Recommendation 14.

Recommendation 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.

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

Response explanation: See Recommendation 14 and Recommendation 15, specifically the component regarding the new online system.

