



To improve public education in
Arizona by sponsoring charter
schools that provide quality
educational choices

ASBCS Board Retreat
September 8, 2014

Annual Audits

» Policy, Trends and Next Steps



Statutory Audit Requirement

- ▶ A.R.S. §15-183(E)(6) & A.R.S. §15-914
- ▶ Charter Holder's Responsibilities
 - Contract for annual financial and compliance audit
 - Ensure audit contract submitted to sponsor
- ▶ Board's Responsibilities
 - Approve audit contracts
 - Engagement letter used to meet this requirement
 - Approve completed audits



Financial vs. Single Audit

▶ Financial Statement Audit

- Conducted under Government Auditing Standards (GAS)
- Deadline is 4-1/2 months after end of fiscal year
 - November 15th
 - Set by Board to provide more timely feedback
- Approximately 75% of audits received by Board

▶ Single Audit

- Required when charter expends a certain amount in federal grant funds
- Deadline is 9 months after end of fiscal year
 - March 31st
 - Set by federal regulation
- Approximately 25% of audits received by Board



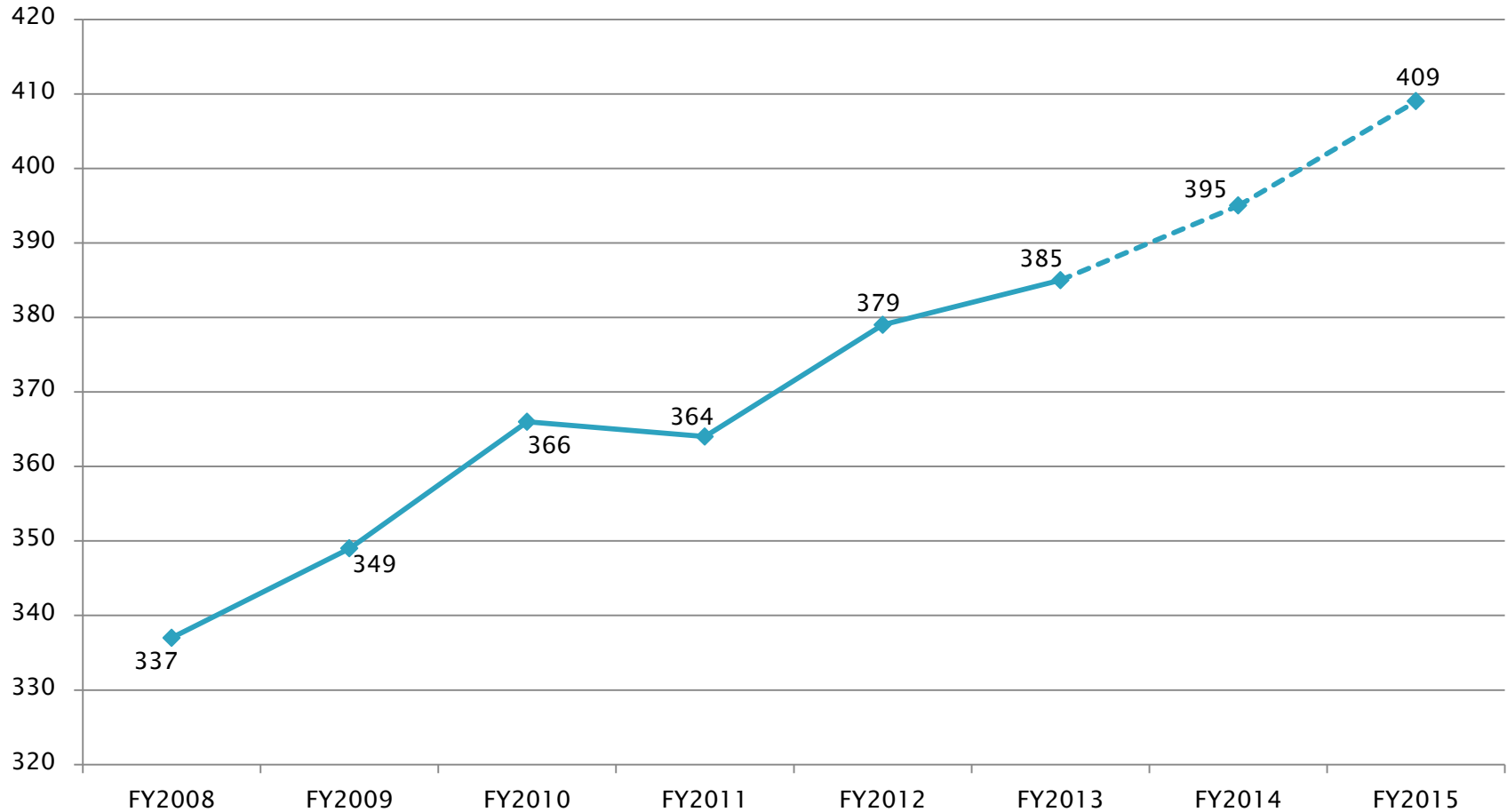
Audit Reporting Package

- ▶ **Financial Statement Audit Reporting Package**
 - Financial statements (including auditor's opinion & notes)
 - GAS report on internal control and compliance
 - Applicable compliance questionnaire(s)
 - Management letter issued by auditor, if applicable

- ▶ **Single Audit Reporting Package**
 - Items included in financial statement reporting package
 - Schedule of Expenditures of Federal Awards
 - Additional report on internal control and compliance
 - Schedule of findings and questioned costs



Audits: Actuals & Projections



Audit Review & Follow-up

- ▶ **Board Adopted Audit Matrix in 2003**
 - Guides staff's review of audits and staff's follow-up with charter holders on issues identified through audits
 - Classifies audit issues into three categories – minimal impact, medium impact and serious impact findings

- ▶ **Audit Matrix Amended in 2008**
 - Addressed consequences for the “second time” or “third time” an issue is identified through the audit that the first time required a corrective action plan
 - Definitions added
 - Expansion request amendment hold implemented



Audit Review & Follow-up

- ▶ All Audits Reviewed in Accordance with Administrative Rule and Audit Matrix
 - Each charter receives a letter after audit has been reviewed
 - Depending on “impact” of issues identified, the letter may:
 - Indicate charter holder should work towards correcting issues and that staff will monitor for repeated issues in the next audit;
 - Indicate the audit included repeated issues that had not been addressed from the prior year’s audit;
 - Require submission of a corrective action plan (CAP); and/or
 - State the charter holder will be placed on an upcoming Board agenda for possible disciplinary action



Audit CAP Data (FY08–FY13)

	FY08	FY09	FY10	FY11	FY12	FY13
# of Audits Reviewed	337	349	366	364	379	385
# of CAP Issues	118	110	79	71	107	57
# of Charter Holders with CAP Requirement	91	76	63	59	67	33
% of Charter Holders with CAP Requirement	27%	21.8%	17.2%	16.2%	17.7%	8.6%
# of Charter Holders with 3+ CAP Issues [% of Total CAP Issues]	6 [18.6%]	8 [23.6%]	4 [19%]	3 [12.7%]	8 [34.6%]	8 [50.9%]
# of “No CAP” Issues	13	12	33	32	36	33

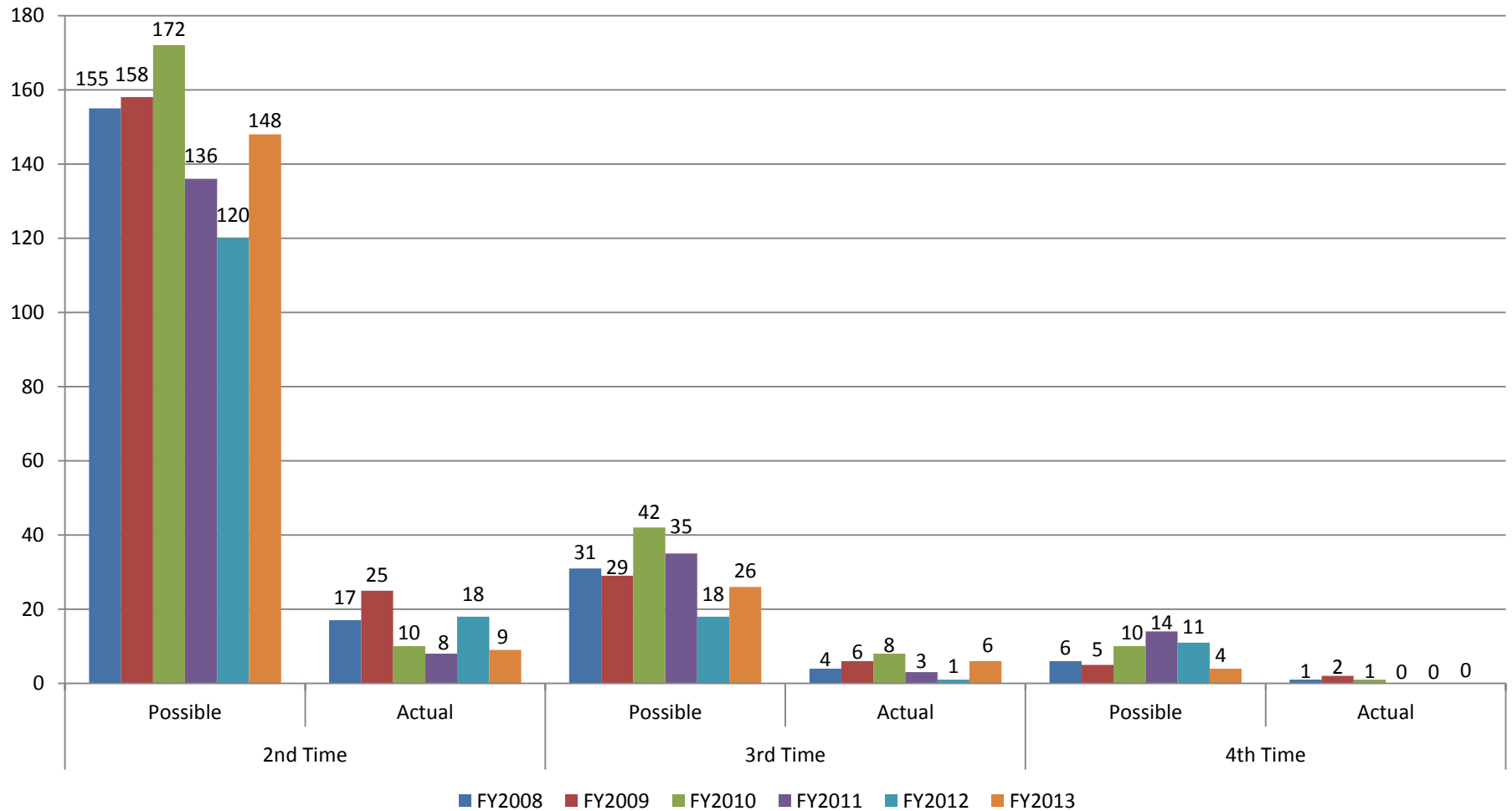


Audit CAP Trends (FY08–FY13)

- ▶ Based on Data Included on Previous Slide
 - There has generally been a decline in # of CAP issues and % of charter holders required to submit a CAP
 - Last two years have seen a small number of charter holders accounting for a larger percentage of CAP issues identified
 - Number of “no CAP” issues identified has remained stable
 - If audit firm indicates in audit that an issue that would normally require a CAP has been corrected subsequent to the testing date, then a CAP is not required. The “no CAP” issue is tracked and becomes part of charter holder’s compliance history.



Possible vs. Actual Repeat CAP Issues



Repeat CAP Issue Trends

▶ Board's Audit Matrix

- After CAP issue has been identified in a charter holder's audit, charter holder must have two "clean" audits to avoid having the issue classified as "second time" or "third time".

▶ Charter Included on Previous Slide

- Reflects # of CAP issues identified, not # of charter holders
- Puts actual # of 2nd time, 3rd time and 4th time issues identified in audits in context by comparing it to possible #
- Shows Board's policy and charter holders' efforts have generally been effective in addressing CAP issues



Financial Performance Framework

- ▶ Adopted in August 2012
 - Work group met twice with staff
 - Board's Financial Subcommittee held two public meetings
 - FY2012 audits first ones reviewed using Board's framework

- ▶ Revised in September 2013 & October 2013
 - Changes based on 1st year of implementation, charter input
 - Eliminated one measure and modified another measure
 - Expanded consideration of financial performance
 - Clarified financial performance submission expectations
 - Clarified how financial performance will be used by Board



Financial Performance Framework

► Uses Six Measures

- Near-term financial health
 - Going Concern, Unrestricted Days Liquidity, and Default
 - “Falls Far Below Standard” rating possible
- Longer term financial sustainability
 - Net Income, Cash Flow, and Fixed Charge Coverage Ratio
 - “Falls Far Below Standard” rating not possible

► Performance Represented in Dashboard

- Summarizes charter holder’s financial performance
- Reflects one year of financial performance
- Becomes publicly available through ASBCS Online after audit reviewed and data entered by staff



Financial Dashboard

Financial Performance - Fiscal Year 2013 Audit

Demo Charter

Near-Term Indicators

Going Concern

Unrestricted Days Liquidity

Default

Yes	Falls Far Below
16.30	Does Not Meet
No	Meets

Sustainability Indicators

Note: Negative numbers are indicated below by parentheses.

Net Income

Fixed Charge Coverage Ratio

Cash Flow (3-Year Cumulative)

(\$219,232)	Does Not Meet
0.50	Does Not Meet
\$73,200	Meets

Cash Flow Detail by Fiscal Year

FY 2013	FY 2012	FY 2011
\$65,158	\$8,042	—

Does Not Meet Board's Financial Performance Expectations



Financial Performance Response

- ▶ Required If Don't Meet at Specified Times
 - Addresses each measure where charter holder received “Does Not Meet” or “Falls Far Below” rating
 - Evaluated by staff in accordance with financial framework

- ▶ Board's Consideration Includes:
 - Charter holder's financial performance response
 - Staff's evaluation of financial performance response
 - Table showing charter holder's financial data and financial performance for last three audited fiscal years



Financial Performance by Fiscal Year

Fiscal Year 2012 (N=379)

Met Financial
Performance
Expectations

33%
(N=125)

Did Not Meet
Financial
Performance
Expectations

67%
(N=254)

Fiscal Year 2013 (N=385)

Met Financial
Performance
Expectations

41.8%
(N=161)

Did Not Meet
Financial
Performance
Expectations

58.2%
(N=224)



Performance Trend: FY12 to FY13

	# of Charter Holders (N=369)	% of Charter Holders
No Change – Met Both Years	74	20.1%
Performance Improved from FY12 to FY13	81	22%
No Change – Did Not Meet Both Years	165	44.7%
Performance Dropped from FY12 to FY13	49	13.3%



Financial Response Data (FY14)

	Met Expectations		Did Not Meet Expectations	
	# of Charter Holders	% of Charter Holders	# of Charter Holders	% of Charter Holders
Renewal	16	43.2%	21	56.8%
Interval Reviews	9	37.5%	15	62.5%
Academic Annual Report Required	11	26.2%	31	73.8%
Failing Schools	0	0%	3	100%
Overall	36	34%	70	66%



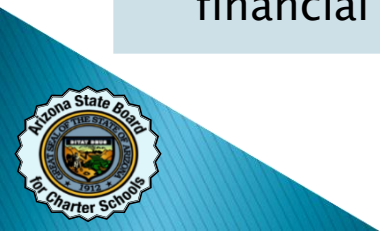
Financial “Standard” and “Expectations”

- ▶ Define “Financial Performance Standard”
 - Reflects charter holder’s annual financial performance
 - “Meets” = 0 “FFB” ratings and no more than 1 “DNM” rating
 - “Does Not Meet” = 1+ “FFB” and/or at least 2 “DNM” ratings
- ▶ Modify “Financial Performance Expectations”
 - Whether financial response required based on 2 audits
 - See next slide for proposed, new definition
- ▶ Reason for Change
 - To focus the Board’s efforts on those charter holders that may currently be experiencing financial difficulties or that may be at a higher risk for financial hardship in the future



New Definition: Financial Expectations

Previous Audit	Most Recent Audit	Meets Financial Performance Expectations?
MEETS financial standard	MEETS financial standard	Yes
DOES NOT MEET financial standard	MEETS financial standard	Yes
MEETS financial standard	DOES NOT MEET financial standard; no measure receives FFB	Yes
MEETS financial standard	DOES NOT MEET financial standard; 1 or more measures receive FFB	No
DOES NOT MEET financial standard	DOES NOT MEET financial standard	No



Impact on Financial Responses

	Status Quo		New Definition for Financial Performance Expectations	
	Waived	Required	Waived	Required
FY2015	22 (47.8%)	24 (52.2%)	27 (58.7%)	19 (41.3%)
FY2016	57 (42.9%)	76 (57.1%)	79 (59.4%)	54 (40.6%)
FY2017	39 (48.1%)	42 (51.9%)	45 (55.6%)	36 (44.4%)
FY2018	25 (37.3%)	42 (62.7%)	30 (44.8%)	37 (55.2%)

NOTE: Table includes projections for renewals and interval reviews only

