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**AGENDA ITEM:** Compliance Matters – DCS Partners, Inc.

**Issue**

Based on the fiscal year 2010 audit, DCS Partners, Inc. is in noncompliance with financial record retention requirements. To date, the charter holder has failed to submit a corrective action plan demonstrating compliance.

**Background**

The fiscal year 2010 audit identified that DCS Partners, Inc. did not prepare sufficient supporting documentation, such as promissory notes and board of directors' authorization, for related party transactions. Based on information in the audit, these loans and advances were primarily for cash flow purposes. This issue was also identified in the fiscal year 2009 audit. Additionally, the fiscal year 2010 audit indicated that for 16 of 30 non-payroll expenses tested, the charter holder did not provide invoices or supporting documentation for review. However, according to the audit, prior to the audit report date, for 14 of 16 exceptions, the charter holder was able to contact the vendor and request and obtain a second copy of the invoice or other supporting documentation. On April 14, 2011, the charter holder was asked to submit a corrective action plan addressing both issues by May 16<sup>th</sup>.

Since a corrective action plan was not received, on May 18<sup>th</sup>, staff sent an email to the charter representative that included the following:

“This email is intended to serve as a friendly reminder. To date, our office has not received the corrective action plan requested in the attached letter. As indicated in the letter, the Board's processes for charter renewal include historical financial, contractual and legal compliance. Issues identified through the annual audits will be considered by the Board and may adversely affect the Board's decision regarding a charter holder's request for charter renewal. At its July meeting, the Board will not only be informed of DCS Partners' compliance history, including corrective action plans, but will also be informed about whether a sufficient corrective action plan was received.”

As of the date of this report, the corrective action plan has not been submitted to the Board.

**Board Options**

1. The Board may direct staff to monitor DCS Partners' progress in demonstrating compliance with record retention requirements and provide additional updates as they become available.
2. The Board may find that DCS Partners, Inc. is in noncompliance with Arizona's Public Records Law and the General Retention Schedule for School Districts and Charter Schools published by the Arizona State Library, Archives and Public Records for its failure to maintain and retain financial records and approve withholding 10% of DCS Partners' monthly State aid apportionment until a sufficient corrective action plan is received by the Board that complies with the request made in the Board's April 14, 2011 letter.
3. The Board may vote to issue a Notice of Intent to Revoke the charter contract of DCS Partners, Inc. for failure to maintain and retain financial records as required by Arizona's Public Records Law and in accordance with the General Retention Schedule for School Districts and Charter Schools published by the Arizona State Library, Archives and Public Records. The motion should also require that:
  - Within 48 hours of receipt of the Notice the charter operator shall notify staff and parents/guardians of registered students of the Notice of Intent to Revoke and the Notice of Hearing and provide a school location where the copy may be reviewed;
  - Within 20 days of receipt of the Notice the charter operator shall provide copies of all correspondence and communications used to comply with the preceding provision; and
  - Within 20 days of receipt of the Notice the charter operator shall provide the Board with the names and mailing addresses of parents/guardians of all students registered with the school.

Staff's Recommendation

Staff's recommendation is Option #2.