
AGENDA ITEM: Compliance Matters – Annual Financial Statement and Compliance Audits

Issue

The charter holders listed on the agenda failed to submit their fiscal year 2013 annual financial statement and compliance audits, which were due to the Board on November 15, 2013.

General Background – Annual Financial Statement & Compliance Audit

[A.R.S. §15-183.E6](#) and [A.R.S. §15-914](#) require charter schools to annually submit a financial audit and compliance questionnaire. For many of the Board's charters, the audit is due 4-1/2 months after the end of the fiscal year – November 15th.

Charters that expend over \$500,000 in federal funds are required to submit a single audit. The single audit and questionnaire for fiscal year ending June 30, 2013 are due March 31, 2014. Charters that fail to timely submit their single audits and questionnaires will be brought before the Board in April.

Background Information Specific to Charter Holders Listed on Agenda

For the fiscal year 2013 audit cycle, the Board expects to receive 387 audits – 302 financial statement audits and 85 single audits. As of the writing of this report, the Board has received 285 of the 302 financial statement audits, which were due by November 15, 2013, and 31 of the 85 single audits, which are due by March 31, 2014.

The charter holders listed on the agenda have been grouped by the number of consecutive years they have failed to timely submit their annual financial statement and compliance audits.

Communications received from charter holders prior to the staff report's posting have been included at the end of the staff report.

Second Consecutive Year Late

The four charter holders listed under "Second Consecutive Year Late" failed to timely submit their audits for fiscal years 2012 and 2013. Please see the table below.

Charter Holder	Fiscal Year 2012 Audit
Arizona Academy of Science & Technology	Audit submitted prior to November Board meeting.
Hillcrest Academy, Inc.	Board approved withholding in November. In March 2013, the Board voted to issue a Notice of Intent to Revoke the charter contract if the charter holder has not submitted the fiscal year 2012 audit on or before March 25, 2013. Audit was received on March 20, 2013. Funds withheld for 3 months.
The Odyssey Preparatory Academy, Inc.	Audit submitted prior to November Board meeting.
Omega Schools, Inc.	Board approved withholding. No withholding occurred as single audit was submitted prior to the deadline for the May payment.

Board Options

Option 1: The Board may approve withholding 10% of the charter holder's monthly state aid apportionment. Staff recommends the following language for consideration: I move to find {INSERT CHARTER HOLDER NAMES} are in noncompliance with state law and their charter contract for their failure to submit the annual financial statement and compliance audits and approve withholding 10% of each charter holder's monthly State aid apportionment until the fiscal year 2013 annual financial statement and compliance audit is submitted.

Option 2: The Board may vote to issue a Notice of Intent to Revoke the charter contract. The following language is provided for consideration: I move to issue a Notice of Intent to Revoke the charter contract of {INSERT CHARTER HOLDER NAMES} for failure to submit the fiscal year 2013 annual financial statement and compliance audit as required by A.R.S. §15-183(E)(6), A.R.S §15-914, and the charter contract.

- Within 48 hours of receipt of the Notice the charter operator shall notify staff and parents/guardians of registered students of the Notice of Hearing on Intent to Revoke Charter 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.

Option 3: The Board may decide to take no action at this time.

RECEIVED

NOV 14 2013



5260 N. Royal Palm Drive, Tucson, AZ 85705
(520) 293-6661

November 11, 2013

Arizona State Board for Charter Schools
PO Box 18328
Phoenix, AZ 85009

Re: Carden of Tucson's Fiscal Year 2013 Audit

To Whom It May Concern,

For the first time in Carden of Tucson's history as a charter school, I regret to inform the Board that we will not have our annual audit completed by the mandated deadline. We are working diligently with our auditors to complete Carden's Fiscal Year 2013 Audit in December, at which time delivery will be expedited to the Board.

We understand that audit reports are an essential tool for the Board to determine how charter schools are carrying out their mission with public funding. We also understand that you may take action against Carden for failure to meet this important deadline. While we accept responsibility for missing this deadline, we seek relief from any withholding of funding as the circumstances that led to our inability to comply with the audit deadline were both beyond our control and unknown to Carden until very recently.

Since 2011, Carden has retained the offices of David W. Goodman PLC as our audit firm. As we have the two prior years, we began the routine engagement process with Mr. Goodman shortly after the end of Fiscal Year 2013. On Oct. 1, 2013 — the day the school's bookkeeper, registrar and I were scheduled to meet with Mr. Goodman to begin work — I received the enclosed letter informing me Mr. Goodman was ineligible to perform the audit. This was the first we learned that Carden did not have an eligible auditing firm engaged.

In the following days, we conducted an expedited search for a replacement auditor and found that several of the board-approved firms were unavailable to complete the audit by the prescribed deadline. The gracious professionals at Ludwig Klewer & Co. PLLC extended in mid-October an engagement offer with the understanding that prior commitments precluded them from meeting the Nov. 15 deadline.

Our Board decided to proceed with the Ludwig Klewer engagement based on the strength of the firm's reputation and presentation to us. Our engagement with Ludwig Klewer was approved Oct. 31. Work will commence Nov. 18 and the firm expects to issue our reporting package to Carden and the Board on or before Dec. 15, 2013.

While we understand the importance of the deadline, we felt it even more critical to ensure we engaged a firm with impeccable standards and excellent peer review opinions for a long-term relationship. We believe we have found that at Ludwig Klewer.

After reviewing what led to our failure to meet the 2013 reporting deadline, we have put procedures in place to ensure such a delinquency is not repeated. Most notably, we have adopted a procedure to ensure our engagement is negotiated and approved much earlier in the year.

I am also aware that the monthly Charter Board Meeting is scheduled for Wednesday, November 20, 2013. I have authorized Mr. Frank Yanez to represent Carden of Tucson at that meeting to answer any questions as I will be meeting with our new auditors to complete our report.

Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Bette F. Jeppson". The signature is written in dark ink and is positioned above the typed name and title.

Bette F. Jeppson
President

Cc: Andrea Leder, Government & Financial Services Manager

Arizona State Board for Charter Schools

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PO Box 18328
Phoenix, Arizona 85009

October 1, 2013

David Goodman
David W. Goodman PLC
7473 E. Tanque Verde Road
Tucson, AZ 85715
Sent via email: snakeeyessdave@yahoo.com

Re: Conducting Carden of Tucson's Fiscal Year 2013 Audit

Dear Mr. Goodman:

You contacted our office to determine if David W. Goodman PLC ("Audit Firm") would be eligible to conduct the fiscal year 2013 audit of Carden of Tucson, Inc. based on the Audit Firm's most recent peer review results.

Laws 1999, 1st S.S., Ch. 4, sec. 15 requires the Board to approve the audit contract and completed audit reporting package for charter schools sponsored by the Board. Rule R7-5-502(B) of the Arizona Administrative Code requires that the Board shall disapprove an audit engagement letter for failure of the audit firm to receive an unmodified opinion during the audit firm's most recent peer review (equates to a "pass" in the current peer review rating model) or for failure of any auditor working on the audit to meet the continuing professional education requirements prescribed by *Government Auditing Standards*.

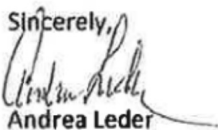
In approving the engagement letter for Carden of Tucson's fiscal year 2012 audit, the October 3, 2012 letter indicated that the due date for the Audit Firm's first peer review would be December 31, 2012. Additionally, the October 3, 2012 letter stated, "Please note that should your firm decide to conduct a charter school audit for the fiscal year 2013 audit cycle, pursuant to rule, the Board will expect to receive a peer review report for your firm with an unmodified opinion."

During a phone conversation on September 25, 2013, I asked that you provide our office with a copy of the peer review report and related communications. Our office received the requested information the next day.

An audit firm may receive a peer review rating of "pass", "pass with deficiencies" or "fail". The submitted peer review report dated December 19, 2012 states the Audit Firm received a peer review rating of "fail".

Based on the results of the peer review dated December 18, 2012, the Board shall disapprove any fiscal year 2013 engagement letters or completed audit reporting packages submitted by David W. Goodman PLC.

If you have any questions, please let me know.

Sincerely,

Andrea Leder

Government & Financial Services Manager

cc: Bette Jeppson, Carden of Tucson, Inc. (Sent via email: bjepson@cardenoftucson.org)

Andrea Leder

From: Admin, TOPA <admin@topamail.com>
Sent: Friday, November 15, 2013 3:28 PM
To: Andrea Leder
Subject: Audit

Good Afternoon Andrea,

The Odyssey Preparatory Academy, Inc. strives for excellence in all areas of performance. This year was especially true for our audit. We prepared and did what we needed to do to complete our audit on time and ran into a problem that was out of our control. The auditor asks for a confirmation from the bond trustee for bond account balances. We have been attempting to get them from our trustee for nearly 10 days. The trustee to this date has not responded to any of our requests. This caused the audit to not be completed in time. We have worked with our auditor to come up with an alternative to confirmation from the bond trustee. This will be completed next week prior to the Arizona State Board for Charter Schools meeting. We are very disappointed that this has happened but the non responsiveness of our trustee is out of our control. We understand that the audit submission timeline is our responsibility and ensure you that we will get our audit in next week. We are setting plans in place to avoid this type of action again.

Thank you so much for the work you do for charter schools and we apologize again for this situation.

--

Holly Johnson | Megan Olson

Co-Directors
The Odyssey Preparatory Academy
odyprep.com

"Don't be content with being average. Average is as close to the bottom as it is the top."
Anonymous