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**AGENDA ITEM: Compliance Matters – Discovery Plus Academy****Issue**

In accordance with the Board's [Policy Statement on Board Notification of Six Months of Non-compliance](#), staff is to bring charter holders having state equalization assistance withheld for non-compliance for six months to the Board for consideration of an issuance of a Notice of Intent to Revoke the charter. Pursuant to this policy, Discovery Plus Academy has been placed on the agenda for the Board's consideration for the charter holder's non-compliance with Classroom Site Fund requirements.

**Classroom Site Fund Background**

The Classroom Site Fund (CSF) was established in state statute in fiscal year 2002 and is funded primarily through an increase in the sales tax as a result of Proposition 301 which was passed by the voters to provide, among other things, for teacher salary increases and other specified maintenance and operation purposes. The specific purposes for which CSF monies can be spent are outlined in A.R.S. §15-977. Additional guidance on the proper use and tracking of the monies is outlined in USFRCS Memorandum No. 44 issued by the Office of the Auditor General.

Since the law limits how CSF monies may be spent, if a school does not spend all of the CSF monies it received during the fiscal year, then at the end of the year, the school needs to have enough cash in the bank to cover the unspent portion from the current fiscal year and any unspent portion from prior fiscal years ("CSF carryover"). If the school does not have enough cash in the bank at the end of the year to cover the CSF carryover, then that means the school has spent a portion of these monies inappropriately and/or has improperly coded certain CSF expenses in its accounting records. The compliance questionnaire, which is completed as part of the annual audit, includes a series of questions relating to CSF monies.

**Discovery Plus Academy**

On May 11, 2009, in response to the fiscal year 2008 audit identifying non-compliance with CSF requirements for the third consecutive year, the Board approved withholding 10 percent of Discovery Plus Academy's monthly state aid apportionment until compliance is demonstrated either through the fiscal year 2009 audit or agreed-upon procedures. On May 11, 2009, a letter describing the Board's action was faxed and mailed to Discovery Plus Academy.

The fiscal year 2009 audit submitted on November 13, 2009 disclosed continued noncompliance with CSF requirements. Specifically, the audit indicates that Discovery Plus did not have sufficient cash to cover the CSF carryover of \$32,883 as of June 30, 2009. The school's cash balance at June 30, 2009 was \$7,075. Further, for the first time, the fiscal year 2009 audit identified that CSF monies were spent on items not permitted by the law and that Discovery Plus did not retain documentation supporting certain CSF expenses.

On January 25, 2010, staff received a copy of Discovery Plus Academy's November 20, 2009 letter describing steps taken to address non-compliance with CSF requirements. The letter was faxed after the charter holder determined that the original letter sent in late November or early December had not been received by the Board. In January 2010, the charter representatives began discussions with Board staff regarding the agreed-upon procedures process. On February 17, 2010, Board staff received and approved the engagement letter for agreed-upon procedures covering the period of July 1, 2009 through February 28, 2010. Barring unforeseen circumstances, the audit firm engaged by Discovery Plus to conduct the agreed-upon procedures anticipates issuing its report on or around March 15, 2010. The audit firm's report will not only provide information regarding whether Discovery Plus has sufficient cash to cover its CSF carryover, but also provide information regarding whether the CSF monies were spent appropriately.

## **Board Options**

1. The Board may decide to take no further action at this time and direct staff to bring the matter back to the Board at a future meeting should the agreed-upon procedures for the period covering July 1, 2009 through February 28, 2010 show Discovery Plus Academy is still not in compliance with Classroom Site Fund requirements. (Under this option, the current 10 percent withholding would continue until compliance is demonstrated.)
2. The Board may vote to issue a Notice of Intent to Revoke the charter of Discovery Plus Academy for failure to comply with its charter and Classroom Site Fund requirements as found in A.R.S. §15-977. 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 #1.