
AGENDA ITEM: Compliance Matters – Global Education Foundation, Inc.

Issue

Global Education Foundation, Inc. remains in 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.

Previous Board Actions – Global Education Foundation, Inc.

On June 14, 2010, in response to the fiscal year 2009 audit and prior audits indicating that for three of the past four fiscal years the charter holder did not have sufficient cash to cover its CSF carryover, the Board approved withholding 10 percent of Global Education Foundation’s monthly state aid apportionment until compliance was demonstrated either through the fiscal year 2010 audit or agreed-upon procedures.¹ The fiscal year 2010 audit disclosed continued non-compliance with CSF requirements.² Staff notified Global Education Foundation that since the fiscal year 2010 audit indicated non-compliance, the charter holder must now use agreed-upon procedures to demonstrate CSF compliance.

On January 10, 2011, in accordance with the Board’s [Policy Statement on Board Notification of Six Months of Non-compliance](#), Global Education Foundation was placed on the agenda for the Board’s consideration of the charter holder’s non-compliance with CSF requirements. At the January meeting, the Board was informed that Global Education Foundation planned to have an audit firm conduct agreed-upon procedures for the period of July 1, 2010 through March 31, 2011. The charter holder had scheduled the audit firm to begin fieldwork on April 27th. Barring unforeseen circumstances, the audit firm intended to issue its report by mid-May. Board staff received and approved the engagement letter for the agreed-upon procedures in early March.

Recent Communications – Completion of CSF Agreed-Upon Procedures

On March 16, 2011, Global Education Foundation informed Board staff that its management company had, without warning, closed and is now out of business. The email further stated that the work the charter holder paid more than \$14,500 for was not done and will not be done by the management company. This work, according to the email, “included budget, accounting, reconciliation work, grant management, and more”. The email mentioned two other vendors that the charter holder had contacted for assistance and that these vendors

¹ In addition to failure to comply with CSF requirements, the Board withheld 10% of Global Education Foundation’s funding for failure to retain student attendance records and failure to comply with federal and state payroll tax requirements.

² Global Education Foundation’s fiscal year 2010 audit demonstrated compliance with student attendance record retention and federal and state payroll tax requirements.

declined. The email stated that the charter holder is working with a third vendor, who “will be reviewing our Quick Books, previous audit reports and the minimal records we have to determine whether or not their company is able to help at this time”. At the third vendor’s suggestion, the email asked that the agreed-upon procedures be postponed until Global Education Foundation is able to secure management services and have necessary reports created. The email concludes:

“We paid teligentCHARTER monthly and were led to believe they were in fact providing the services we needed to remain in compliance. We now have learned these services were not provided and necessary documentation does not exist. We are now taking steps to secure those services with another business provider.”

On March 22nd, Board staff responded to Global Education Foundation. Staff’s email sought clarification regarding: 1) whether vendors previously contacted were unable to assist because of the condition of the school’s books or because they cannot access the information from the Quickbooks file that the school has; and 2) the reference to “the minimal records we have” in the March 16th email and whether the school has its paper financial records (source documentation). In addition to asking Global Education Foundation to keep Board staff updated on the school’s progress in addressing the situation, the email also included the following:

“Before considering whether an extension can be granted or not, our office needs to know that the school has found another vendor or person to take over the accounting and related responsibilities and that the school has a specific timeframe for ensuring that its accounting records for the current year are accurate and complete.”

On March 22nd, Global Education Foundation provided the clarification requested above. Regarding the first item, Global Education Foundation stated that some vendors have indicated that they are not able to work with the school because of the condition the books are in while others have been unable to open the Quickbooks file. Regarding the records, the email stated,

“In simplest terms, the records are not complete. The records we have in house are ‘minimal’ in terms of any required documents and reports necessary for an audit or compliance monitoring. All of our paper records have been given to teligentCHARTER. The work we believed was being done, was not done. Beginning in December we were told numerous times that necessary work ‘was coming shortly.’ After several attempts to have our hard copy records returned to us we did receive one envelope of miscellaneous items. The one person I have spoken to reports that teligentCHARTER does ‘not know’ where the hard copies are. They shared that the ‘business office/computers/servers are no longer available to them.’”

Between March 22nd and April 8th, Global Education Foundation provided Board staff with frequent updates regarding its efforts to gain access to its Quickbooks file and to obtain outside business services assistance. As the April Board meeting date approached, Global Education Foundation shared with staff that it wanted to make sure that the Board would be made aware of its inability to meet the agreed-upon procedures deadlines previously provided.

On April 18th, Global Education Foundation requested an in-person meeting in Phoenix with Board staff. Due to scheduling conflicts, this meeting could not take place until May 3rd. On May 3rd, Board staff met with Global Education Foundation board members, Maureen Maloney and Maryann Beal, as well as Global Education Foundation’s new business services provider. Related to completing the CSF agreed-upon procedures and demonstrating compliance, the following was shared during the meeting:

- First, Global Education Foundation has copies of its source documentation (e.g., bank statements, payroll reports, invoices) so that its accounting records can be recreated. It does not have copies of many of the reports and other information that would normally be created or pulled from the accounting system and regularly reviewed by the school throughout the year. The charter holder and business services provider indicated that the school’s accounting records for fiscal year 2011 would need to be completely recreated.
- Second, the charter holder and business services provider indicated that by mid-July 2011 the school would have the accounting records and related reports ready for the audit firm to conduct the CSF agreed-upon procedures.

- Finally, the charter holder and business services provider indicated that while they would be ready to undergo the CSF agreed-upon procedures in mid-July, at this time, they believe the audit firm's report will show that the school does not have enough cash to cover the CSF carryover.

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 specified future meeting. (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 Global Education Foundation, Inc. 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 #2.