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

Issue

The charter holders listed on the agenda failed to submit their fiscal year 2010 annual financial statement and compliance audits, which were due to the Board on November 15, 2010. Prior to the Board meeting, one charter holder submitted a written response regarding its late audit. A copy of the response has been included with this report.

General Background – Annual Financial Statement & Compliance Audit

[A.R.S. §15-183.E.6](#) 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, 2010 are due March 31, 2011. 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

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

Those charter holders listed under “Second Consecutive Year Late” failed to timely submit their audits in fiscal years 2009 and 2010. Please see the table below.

Charter Holder	Fiscal Year 2009 Audit
Children’s Success Academy, Inc.	Board approved withholding. Funds withheld for 1 month.
Compass High School, Inc.	Board approved withholding. Audit submitted prior to the next scheduled payment, so no funds were withheld.

Those charter holders listed under “Third Consecutive Year Late” failed to timely submit their audits in fiscal years 2008, 2009 and 2010. Please see the table below.

Charter Holder	Fiscal Year 2008 Audit	Fiscal Year 2009 Audit
Back-to-Basics School	Audit submitted prior to November meeting.	Audit submitted prior to November meeting.
Scottsdale Horizons Charter School	Audit submitted prior to November meeting.	Audit submitted prior to November meeting.

Academy of Arizona is listed under “Fourth Consecutive Year Late” for failing to timely submit its audits in fiscal years 2007, 2008, 2009 and 2010.

- Fiscal Year 2007 Audit – Board approved withholding, which occurred for two months. Audit submitted following staff’s site visit and prior to the February 2008 meeting where the Board would consider further disciplinary action.
- Fiscal Year 2008 Audit – Board approved withholding, which occurred for two months. Audit submitted following staff’s site visit and prior to the February 2009 meeting where the Board would consider further disciplinary action.
- Fiscal Year 2009 Audit – Board approved withholding, which occurred for three months. The Board also issued a Notice of Intent to Revoke the charter contract, in part, for Academy of Arizona’s failure to timely submit its audit. The outstanding documents were submitted before a consent agreement was entered. Therefore, no further action was taken.

On September 13, 2010, the Board issued a Notice of Intent to Revoke Academy of Arizona’s charter contract for failing to comply with its charter contract and A.R.S. 15-183(E)(3) when it ceased providing educational services to students. Please see the ongoing actions report for more information.

Board Options

1. The Board may direct staff to monitor each charter holder's progress in submitting its fiscal year 2010 annual financial statement and compliance audit and provide additional updates as they become available.
2. The Board may find the charter holders are in noncompliance with state law 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 2010 annual financial statement and compliance audit is submitted as required by A.R.S. §15-183(E)(6) and A.R.S. §15-914.
3. The Board may vote to issue a Notice of Intent to Revoke the charter contract of each charter holder for failure to submit the fiscal year 2010 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.

Staff's Recommendation

Staff's recommendation is Option #2.