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

Issue

The charter holders listed on the agenda failed to submit their fiscal year 2014 annual financial statement and compliance audits (“audit”), which were due to the Board on November 15, 2014. Since November 15, 2014 fell on a Saturday, complete audits received by November 17, 2014 were considered timely submitted.

General Background – Audits

[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, 2014 are due March 31, 2015. 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 2014 audit cycle, the Board expects to receive 395 audits – 304 financial statement audits and 91 single audits. As of the writing of this report, the Board has received 297 of the 304 financial statement audits, which were due by November 15, 2014, and 14 of the 91 single audits, which are due by March 31, 2015.

The charter holders that failed to timely submit their fiscal year 2014 audits are identified with agenda items L2 and L3.¹ For agenda item L2, the charter holders have been grouped by the number of consecutive years they have failed to timely submit their audits.

Second Consecutive Year Late

The three charter holders listed under “Second Consecutive Year Late” failed to timely submit their audits for fiscal years 2013 and 2014. Please see the table below.

Charter Holder	Fiscal Year 2013 Audit
Legacy Education Group	Board approved withholding in November. Audit was received on December 18, 2013. Funds withheld for 1 month.
Legacy Schools	Board approved withholding in November. Audit was received on December 18, 2013. Funds withheld for 1 month.
Life Skills Center of Arizona, Inc.	Board approved withholding in November. Audit was received on December 18, 2013. Funds withheld for 1 month.

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 2014 annual financial statement and compliance audit is submitted.

¹ The seventh charter holder – Precision Academy System, Inc. – is sponsored by the State Board of Education.

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 2014 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.