
AGENDA ITEM: Compliance Matters – Vechij Himdag Alternative School, Inc.

Issue

Based on its submitted fiscal year 2009 audit, Vechij Himdag Alternative School, Inc. has violated Classroom Site Fund requirements for three consecutive years. Pursuant to the Board’s [Audit & Compliance Questionnaire Follow-up Matrix](#), the charter holder has been placed on the agenda for the Board’s consideration.

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 (“carryover”). The compliance questionnaire, which is completed as part of the annual audit, includes a series of questions relating to CSF monies.

Vechij Himdag Alternative School, Inc.

As demonstrated in the table below and based on the charter holder’s annual audits, for the past three fiscal years, Vechij Himdag Alternative School has not had sufficient cash to cover its CSF carryover.

**Vechij Himdag Alternative School, Inc.
CSF Cash Carryover and Shortfall**

	Carryover	Shortfall
Fiscal Year 2007	\$91,391	\$91,391
Fiscal Year 2008	\$126,168	\$113,088
Fiscal Year 2009	\$67,576	\$65,674

On March 19th, staff emailed a letter asking Vechij Himdag Alternative School to provide certain information by April 19th. By the deadline, staff received the charter holder’s response. After submitting its initial response, the charter holder also provided updates, as applicable, to staff. In the information provided, the charter holder noted that the school had reduced the CSF carryover balance nearly in half. The charter holder also indicated that under normal circumstances, it would expect to be able to cover the carryover at year end. However, because of ongoing discussions with the Internal Revenue Service to establish a payment plan (see below), “we cannot guarantee the amount of carry over money that will be in the bank at June 30”.

In addition to third-year Classroom Site Fund noncompliance, the fiscal year 2009 also identified second-year noncompliance with federal and state payroll tax requirements and with Arizona State Retirement System (ASRS) requirements. In accordance with the Board’s matrix, these items were not included on the agenda because, for the tax issues, the charter holder’s 2009 response indicates that progress has been made toward returning to full compliance, and for ASRS, the charter holder is now in compliance with all prior contributions and has remained current in its contributions. Further, the fiscal year 2009 audit identified first-year weaknesses in internal controls related to segregation of duties and retention of source documents supporting information in the school’s accounting records and first-year failure to have worker’s compensation insurance for employees. The charter holder submitted a corrective action plan regarding these issues.

Board Options

1. Based on the information provided by the charter holder, take no action at this time other than to direct staff to place Vechij Himdag Alternative School, Inc. on the Board's May 2011 agenda for further consideration should the fiscal year 2010 audit identify continued noncompliance with Classroom Site Fund requirements. (Since the charter holder is subject to a single audit, the deadline for submitting its fiscal year 2010 audit is March 31, 2011.)
2. The Board may find Vechij Himdag Alternative School, Inc. is in noncompliance with state law for its failure to comply with Classroom Site Fund requirements found in A.R.S. §15-977 and approve withholding 10% of the charter holder's monthly State aid apportionment until the charter holder can demonstrate compliance with Classroom Site Fund requirements either through the fiscal year 2010 audit or through Agreed-Upon Procedures established by Board staff.
3. The Board may vote to issue a Notice of Intent to Revoke the charter contract of Vechij Himdag Alternative School, Inc. for failing to comply with Classroom Site Fund requirements found in A.R.S. §15-977.
 - 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.
4. The Board may choose to withhold 10% of the charter holder's monthly State aid apportionment (Option #2) and to issue a Notice of Intent to Revoke the charter holder's charter contract (Option #3).

Staff's Recommendation

Staff's recommendation is Option #2.