



## Audit & Compliance Questionnaire Follow-Up Matrix

### Policy Statement

The purpose of the policy is to guide Board staff's review of the annual audit reporting packages ("annual audit") and Board staff's follow-up with charter holders on issues identified through the annual audits.

### Background

The annual audits are reviewed pursuant to Arizona Administrative Code R7-5-504 and in accordance with this policy. Each charter holder that will be operating in the next fiscal year receives a letter after the annual audit has been reviewed. Depending on the "impact" of the issues identified, the letter may: a) indicate the charter holder should work towards correcting the issues and that staff will monitor for repeated issues in the next annual audit ("minimal impact findings"); b) indicate the annual audit included repeated issues that had not been addressed from the prior year's annual audit ("minimal impact findings"); c) require the charter holder to submit a corrective action plan ("medium impact findings"); and/or d) state that the charter holder will be placed on an upcoming agenda for possible disciplinary action ("serious impact findings"). For detailed information, see the "Audit Matrix" below.

### Policy

#### Audit Matrix

Report Type	Criteria	Recommended Action
Serious Impact Findings	Findings that have a significant impact to the operation of the school or the students. Specifically threats to health & safety of children, gross violations of Generally Accepted Accounting Principles (GAAP) that increase opportunity for fraud/theft, repeat noncompliance, and any other concerns the Board would like brought to its attention.	Issue letter for noncompliance Bring to Board possible disciplinary action of 10% withholding or issuance of notice of intent to revoke.
Medium Impact Findings	Findings that impact the educational environment, operation of the school and/or its stakeholders but are not threats to health & safety or gross violations of GAAP. Repeated minimal impact findings as identified in Appendix B of the Board's Operational Performance Framework.	Issue letter indicating there were deficiencies noted in the audit and that school should correct the deficiencies to avoid possible Board action in the future. Staff to work with school through corrective action plans and site visits, when appropriate.
Minimal Impact Findings	Findings that don't significantly impact the operation of the school or the students but are still required by law or contract to be rectified.	Issue letter indicating school should continue to work towards correcting areas noted in the audit. Monitor for repeat findings in the future.

In addition to the information presented in the table, the Board and staff will consider the following factors when determining the appropriate course of action to take:

- Repeat breaches of the charter contract or the law
- Multiple instances of noncompliance
- School’s ability and willingness to operate in compliance with the law
- School’s historical compliance record

The Board expects its charter holders to correct issues identified through their annual audits and use the audits to improve their operations. Therefore, in accordance with the matrix:

- The second time Board staff identifies through the annual audit the same issue, which the first time required a corrective action plan be submitted, a hold will be placed on certain amendments until compliance is demonstrated through the next annual audit.<sup>1</sup> The hold affects amendments related to the charter holder’s ability to expand and includes adding sites, adding grade levels, and increasing the school’s enrollment cap. Further, the charter holder will be required to submit a written response regarding the repeat noncompliance.
  - If the written response supports that the previous plan has been implemented and/or that progress has been made toward returning to full compliance, then no further information will be requested.
  - If the written response does not support that the previous plan has been implemented and/or that progress has been made toward returning to full compliance, then the charter holder will be brought to the Board for possible disciplinary action.
- The third time Board staff identifies through the annual audit the same issue, which the first time required a corrective action plan be submitted, the issue will be considered a serious impact finding and the charter operator will be brought to the Board for possible disciplinary action.

## Definitions

“Second time” means either the second consecutive year that the same issue requiring a corrective action plan has been identified through the annual audit, or the next time the same issue requiring a corrective action plan is identified through the annual audit unless two consecutive annual audits have been submitted demonstrating compliance in this area.

“Third time” means either the third consecutive year that the same issue requiring a corrective action plan has been identified through the annual audit or the next time after the second time the same issue requiring a corrective action plan is identified through the annual audit unless two consecutive annual audits have been submitted demonstrating compliance in this area.

Historical Note:

Effective: October 14, 2003

Board Approval Date: October 14, 2003

Revised Date: July 14, 2008, June 7, 2017, August 9, 2021

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<sup>1</sup> If the Board already has developed agreed upon procedures for the particular issue, which resulted in the amendment hold, the charter operator may choose to demonstrate compliance through the agreed upon procedures process in lieu of waiting until the next annual audit. If the charter operator chooses this option, then the Board expects that the charter operator’s next annual audit will also demonstrate compliance.