

## Arizona State Board for Charter Schools

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**TO:** Audit firms that conduct audits of charter schools sponsored by the State Board for Charter Schools or the State Board of Education

**CC:** Administrators of charter schools sponsored by the State Board for Charter Schools and the State Board of Education

**FROM:** Andrea Leder, Government and Financial Services Manager

**DATE:** July 27, 2011

**SUBJECT:** “No” and “N/A” Answers in the Compliance Questionnaires

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With the fiscal year 2011 audit cycle underway, this memorandum serves to remind audit firms of the prescribed minimum audit standards that must be followed when completing the Legal Compliance Questionnaire, USFRCS Compliance Questionnaire and Procurement Compliance Questionnaire. This memorandum focuses on three requirements specified in the compliance questionnaire instructions.

1. All “No” answers must be adequately explained in the comments column or in an attachment. Findings (Deficiencies) must be described in sufficient detail to enable the Board to describe the finding (deficiency) in a letter. The description should include the number of items tested and the number of exceptions noted.

For questions answered “No”, the description provided by the audit firm in the comments column or in an attachment should provide additional information or context to adequately explain the “No” answer and not just simply restate the question as a negative statement (e.g., “Determined the charter school did not maintain up-to-date fingerprints of all governing board members” or “Membership and absences did not always agree with the school’s computerized system records”). Readers can deduce from the “No” that the charter school did not comply with the question’s requirement; what they are unable to ascertain is to what extent or how the charter school didn’t comply. That is the reason why the compliance questionnaire standards require the audit firm to provide an adequate explanation in the comments column or in an attachment.

For certain questions, including the number of items tested and the number of exceptions noted, as required by the standards, may provide an adequate explanation for the “No” answer (e.g., “The charter school did not maintain up-to-date fingerprints for 1 of its 5 governing board members”). However, for other questions, such as certain ones pertaining to Classroom Site Fund or payroll taxes, the number of items tested and number of exceptions noted may not be directly applicable. This, however, does not eliminate the requirement to adequately explain “No”

answers and provide sufficient detail. As required by the standards, findings must be described in sufficient detail to enable the Board to describe the findings in a letter.

The audit firm or its client may want to include in the explanation additional information explaining why the situation occurred or what has been done since to correct it. In some cases, the additional information, especially as it relates to steps taken since the testing date and confirmed by the audit firm, may result in a different level of corrective action. Please see below:

- Scenario 1: The compliance questionnaire indicates that “As of the testing date of 4/21/10, the school could not provide a valid fingerprint clearance card for 1 of 14 teachers/instructional staff. The teacher’s card had expired on 3/24/10.”

Under this scenario, the charter holder would be required to submit a corrective action plan to the Board that included the names of all current employees, their positions, and either copies of their fingerprint clearance cards or the date of receipt of the fingerprint check. The noncompliance becomes part of the charter holder’s contractual and legal compliance history that is incorporated into the Board’s five-year interval reviews and charter renewal.

- Scenario 2: The compliance questionnaire indicates that “As of the testing date of 4/21/10, the school could not provide a valid fingerprint clearance card for 1 of 14 teachers/instructional staff. The teacher’s card had expired on 3/24/10. The teacher’s new fingerprint clearance card was obtained subsequent to the testing date.”

Under this scenario, the noncompliance with fingerprinting requirements would be mentioned in the audit letter. Since the audit firm indicated corrective action has already occurred, no corrective action plan would be required. The noncompliance becomes part of the charter holder’s contractual and legal compliance history that is incorporated into the Board’s five-year interval reviews and charter renewal.

2. *The Student Attendance Reporting section of the Legal and USFRCS compliance questionnaires requires audit firms to include in the comments column the net overstatement or understatement of membership and/or absence days.*

The Student Attendance Reporting section includes requirements specific to testing that must be completed when answering these questions and to information that must be disclosed when reporting out the results from the audit firm’s testing. These requirements are in addition to those found in the questionnaires’ general standards.

For the applicable questions, if the testing discloses a net overstatement or understatement of membership and/or absence days, the audit firm is required to report the net overstatement or understatement in the questionnaire’s comments column. Therefore, explanations such as “Variances in teachers’ attendance compared to computerized attendance system” and “The errors resulted in an immaterial number of differences in absences” are inadequate as they fail to meet the requirements. Further, while the explanation “For 5 of 5 elementary and junior high students tested, attendance was not properly calculated” includes the number of items tested and number of exceptions noted, it is also inadequate as it fails to disclose the resulting net overstatement or understatement of absences, if any.

3. All “N/A” answers must be adequately explained in the comments column or in an attachment. Each question on the questionnaire must be answered “Yes”, “No” or “N/A”. If the question is answered “N/A”, then an explanation must be included in the comments column or in an attachment. There is no exception to this requirement.

Further, “N/A” should only be used for questions that are truly not applicable to the charter school’s operations (e.g., the high school related student attendance reporting questions for a charter school that serves K-8). “N/A” should not be used if the charter holder failed to track information or failed to provide information for the audit firm to review. For example, if the Classroom Site Fund expenses were not tracked in the accounting records and therefore could not be reviewed by the audit firm, the applicable Classroom Site Fund questions should be answered “No” with that explanation provided.

**Pursuant to the Board’s June 13, 2011 audit guidelines, if Board staff’s review of the audit reporting package identifies that the audit firm did not complete the compliance questionnaire(s) in accordance with the prescribed minimum audit standards (e.g., all “No” and “N/A” answers are not adequately explained), Board staff will notify both the audit firm and the charter holder and will provide a deadline by which the audit firm must submit the revised questionnaire(s) to the Board and the charter holder.**