
AGENDA ITEM: Compliance Matters – DCS Partners, Inc.

Issue

In accordance with the Board’s [Policy Statement on Board Notification of Six Months of Non-compliance](#), DCS Partners, Inc. was placed on the February 2013 agenda for the Board’s consideration of an issuance of a Notice of Intent to Revoke the charter for the charter holder’s failure to timely submit its fiscal year 2012 financial statement and compliance audit. The full compliance check conducted prior to the February meeting identified that the charter holder had not demonstrated compliance with federal Elementary and Secondary Education Act requirements and had failed to amend its charter contract to change its charter representative. Based on the information presented at the February meeting, the Board added to the basis of the existing 10% withholding of state equalization assistance for the two items identified through the compliance check. As of February 15th, the charter holder had demonstrated compliance with the two items that the Board added to the basis of the withholding. Since the fiscal year 2012 audit has still not been received, DCS Partners, Inc. has been placed on the March agenda for Board consideration.

Background

On November 26, 2012, the Board approved withholding 10 percent of DCS Partners’ monthly state aid apportionment for failure to submit its fiscal year 2012 annual financial statement and compliance audit. During the February 2013 meeting, DCS Partners indicated that the charter holder had provided to the auditor all of the information, including GAAP financial statements with the accompanying note disclosures. The charter holder anticipated that by the end of the week of February 11th all of the sampling and testing would be done onsite and the audit should be available to turn into the State by the following week.

On February 15th, Board staff sent a letter to DCS Partners regarding the action taken by the Board at its February meeting. Related to the audit, the February 15th letter stated, “Upon receipt of a complete fiscal year 2012 audit reporting (package), the Board will notify the Arizona Department of Education to return the 10% withholding with the next regularly scheduled payment. Should a complete audit reporting package not be received by February 28, 2013, the Charter Operator will be placed on the Board’s March 11, 2013 agenda for further consideration.”

On February 27th, the audit firm contacted Board staff and indicated that the fiscal year 2012 audit would not be submitted to the Board by February 28th, but should be completed by March 11th.

Staff’s review of the charter holder’s prior compliance with submitting its annual financial statement and compliance audit found the following:

Fiscal Year 2011	Audit timely submitted.
Fiscal Year 2010	Board approved withholding. Funds withheld for 2 months.
Fiscal Year 2009	Audit timely submitted.
Fiscal Year 2008	Audit timely submitted.
Fiscal Year 2007	Board approved withholding. Funds withheld for 3 months. No further action taken regarding late audit at February 2008 meeting.

Board Options

Option 1: The Board may vote to issue a Notice of Intent to Revoke the charter holder’s charter contract. Staff recommends the following language: The information contained in the audit is one of the primary means the Board has to meet its statutory oversight and administrative responsibilities for the schools it sponsors. Although this is a matter that could be quickly corrected, it is recurring and therefore represents a material breach of the charter contract. Therefore, I move to issue a Notice of Intent to Revoke the charter contract of DCS Partners, Inc. for failing to timely submit the fiscal year 2012 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 2: The Board may decide to take no further action at this time. The following language is provided for consideration: I move to direct staff to bring this matter back to the Board at its April 2013 meeting for further consideration should DCS Partners, Inc. still not have submitted its fiscal year 2012 audit.¹

¹ Under this option, the current 10 percent withholding would continue until the fiscal year 2012 audit is submitted.