AGENDA ITEM: Compliance Matters – Omega Schools, Inc.

Issue

Omega School, Inc.'s ("Omega") fiscal year 2012 audit identified the charter holder's failure to comply with financial record retention requirements, failure to comply with the Uniform System of Financial Records for Charter Schools, failure to comply with student attendance record retention requirements, and failure to comply with state unemployment requirements. A corrective action plan (CAP) was requested, but as of the writing of this report, the charter holder has failed to submit a sufficient CAP to the Board. Additionally, Omega has failed to submit to the Board all of the required documentation to change its charter representative.

Fiscal Year 2012 Audit CAP

Omega's fiscal year 2012 audit identified the following issues, which required the submission of a CAP:

- Qualified Opinion – The audit indicated a qualified opinion of the financial statements because of the nature of the charter holder's records. Specifically, the auditors' report refers to the audit firm being unable to obtain complete records supporting the charter holder's accounts payable balance stated at $634,278 as of June 30, 2012. In communications with the audit firm subsequent to the audit's submission, Board staff was informed that the qualified opinion was the result of the combination of three findings:
  - The audit firm noted that "significant quantities" of deposits, invoices, and payroll registers were not on file (see also "Financial Record Retention" below).
  - The audit firm noted that the subsidiary accounts payable detail does not tie to the control.
  - The audit firm noted that the charter holder recorded expenses on a cash basis.
- Financial Record Retention – As indicated above, the audit firm noted "significant quantities" of deposits, invoices, and payroll registers were not on file. Specifically, 30 of 60 invoices, 12 of 15 deposits, and 3 of 6 payroll registers sampled were not on file. A similar issue was identified in the fiscal year 2011 audit.
- Segregation of Duties – Due to the limited number of personnel performing accounting functions, the audit firm indicated that the charter holder does not have adequate segregation of duties.
- Attendance Record Retention – The audit indicated that the charter holder was unable to provide teacher attendance registers for 7 of 10 students tested.
- State Unemployment – The audit indicated that the charter holder has elected the state unemployment reimbursement option and has unpaid liabilities to the Arizona Department of Economic Security.

Omega's charter contract requires it to comply with the Uniform System of Records for Charter Schools or USFRCS.

The following communications have occurred with the charter holder regarding the audit CAP:

- On May 2, 2013, Board staff emailed a letter to the charter representative, Dr. Patricia Bassett, asking the charter holder to submit a CAP by June 1, 2013 (see "b. ASBCS May 2, 2013 Letter" in portfolio).
- Since no response had been received, on June 6, 2013, Board staff sent an email to Dr. Bassett indicating that our office still had not yet received the audit CAP.
- On June 7, 2013, Dr. Bassett emailed Board staff indicating that she had spoken yesterday with the auditor, who was going to provide additional information to her, but would be out of the office until June 12, 2013. Board staff granted an extension to submit the CAP until June 21, 2013.
- On June 24, 2013, Dr. Bassett submitted the charter holder's response to the Board's May 2, 2013 letter (see "c. Omega June 24, 2013 Response").
- On July 1, 2013, Debra Petersen replaced Dr. Bassett as the charter representative.
- On July 18, 2013, Board staff sent an email to Ms. Petersen. Board staff's initial email sent on July 18th included an incorrect deadline date of "Friday, August 12, 2013". Ms. Petersen was asked to disregard

that email and was provided a new email with the correct date. The July 18th email stated, in part:

> "On May 2, 2013, the Board sent the prior charter representative a letter requiring a corrective action plan due to issues identified in the fiscal year 2012 audit. On June 24th, the prior charter representative submitted a response. The response provided does not satisfactorily address the information requested in the Board's May 2nd letter. Please review the Board's May 2nd letter and the corrective action plan submitted on June 24th (both attached) and see if there is anything you would like to add. Your response may also address specific steps taken in fiscal year 2013 and/or fiscal year 2014 to help ensure that these issues do not recur in the fiscal year 2013 or subsequent audits. Please provide your response by Friday, August 9, 2013. After your response is received, staff will review both responses and determine the next appropriate step."

- Since no response had been received, on August 16, 2013, Board staff sent an email to Ms. Petersen indicating that our office still had not received the requested information.
- On August 18, 2013, Ms. Petersen responded that she had received the email to "please disregard email" after she had sent her email indicating she would respond. Based on the misunderstanding, Board staff sent an email on August 19, 2013, asking if the response could be provided by Friday, August 30th.
- On September 11, 2013, Board staff received an email from Dr. Bassett stating that Omega's board wants "to review all correspondence from you to Debra Petersen regarding the 2012 audit ASAP". On September 11th, Board staff sent Dr. Bassett and the members of Omega's board the correspondence related to the fiscal year 2012 audit CAP. In a cover letter, Board staff stated that if a CAP is not received by Monday, September 30, 2013 that sufficiently addresses the matters from the fiscal year 2012 audit, then the charter holder may be placed on the Board's October agenda for possible disciplinary action.
- As of the writing of this report, no additional information has been provided by the charter holder.

Communications (without attachments) referenced above other than the Board's May 2, 2013 letter and Omega's June 24, 2013 response may be found in "d. Other Audit Communications".

Charter Representative

The charter representative is the person appointed by the charter holder to act on the charter holder's behalf with the Board and to be the primary contact for all communications. In early September, Board staff learned that the charter representative currently on file with the Board is no longer associated with Omega. The following communications have occurred with the charter holder regarding the change in charter representative:

- On September 6, 2013, Debra Petersen provided Board staff with a copy of the letter she provided to Omega's board, resigning her position as charter representative. (A copy of Ms. Petersen's email and letter may be found in "e. Other Charter Representative Communications".)
- On September 11, 2013, as part of the letter sent regarding the audit CAP, Board staff noted that Omega does not currently have a charter representative and provided information about submitting the Charter Representative Notification Request. A copy of the request form was provided with the letter.
- On September 17, 2013, Board staff sent an email to Dr. Bassett and the Omega board members regarding submitting the Charter Representative Notification Request. The email included a copy of the request form.
- On September 23, 2013, Dr. Bassett provided Board staff with a copy of Board minutes and a copy of the fingerprint clearance card for Patricia Keech.
- On September 24, 2013, Board staff sent an email to Dr. Bassett and Ms. Keech detailing the specific documents that Omega must still provide in order for the notification request to be processed.
- As of the writing of this report, Omega has failed to submit to the Board the information specified in the September 24, 2013 email to amend its charter contract to reflect the change.

Communications (without attachments) referenced above may be found in "e. Other Charter Representative Communications".

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 Omega Schools, Inc. is in noncompliance with state, federal and local laws and its charter contract for its failure to comply with financial record retention requirements, failure to comply with the Uniform System of Financial Records for Charter Schools, failure to comply with student attendance record retention requirements , failure to comply with state unemployment requirements, and failure to request an amendment of its charter to reflect its change in charter representative. The withholding shall continue until compliance is demonstrated through:

- The submission of the corrective action plan requested in the Board's May 2, 2013 letter; and
- The submission of an administratively complete and substantively complete Charter Representative Notification Request.

Option 2: The Board may decide to take no action at this time.