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August 23, 2019

The Honorable Rick Gray, Chair  
Joint Legislative Audit Committee

The Honorable Anthony Kern, Vice Chair  
Joint Legislative Audit Committee

Dear Senator Gray and Representative Kern:

Our Office has recently completed a 24-month followup of the Arizona School Facilities Board regarding the implementation status of the 39 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2017 (Auditor General Report 17-108). As the attached grid indicates:

- 9 have been implemented.
- 1 legislative recommendation has been implemented.
- 16 are in the process of being implemented.
- 11 have not been implemented.
- 2 are not yet applicable.

The Joint Legislative Audit Committee has directed our Office to conduct a sunset review of the Arizona School Facilities Board, which is statutorily due to the Legislature by October 1, 2021. Therefore, unless otherwise directed by the Joint Legislative Audit Committee, we will continue to conduct follow-up work on the Board's efforts to implement the recommendations from the 2017 performance audit as part of the Board's sunset review.

Sincerely,  
Dale Chapman, Director  
Performance Audit Division

cc: Paul G. Bakalis, Executive Director  
Arizona School Facilities Board

# Arizona School Facilities Board

## Auditor General Report 17-108

### 24-Month Follow-Up Report

#### Recommendation

#### Status/Additional Explanation

#### Finding 1: Board should establish formal project assessment process to ensure only eligible projects receive monies

1.1 The Legislature should consider revising A.R.S. §15-2032 to more clearly specify the eligibility criteria school district buildings must meet to be eligible for BRG funding, such as whether the school district building is open or closed, used for student instruction or other purposes, and/or may be needed to meet current or future student capacity.

**Implemented at 6 months**

1.2 The Board should work with its Assistant Attorney General to revise its BRG Fund policy to more clearly specify project eligibility criteria for BRG funding based on statutory requirements. The revised policy should indicate how a school district's use or planned use of a building will affect its eligibility for receiving BRG Fund monies.

#### **Implementation in process**

In August 2018, the Board worked with its Assistant Attorney General to revise its BRG Fund policy to state that BRG Funds can be used only for school district buildings that are used for student instruction or other academic purposes. This revision reflected statutory changes specified in Laws 2018, Ch. 285. However, the Board has not yet included all statutory eligibility criteria in its BRG Fund policy, such as the requirement that the Board approve only projects that will be completed within 12 months, unless similar projects on average take longer to complete. Board management reported that it plans to work with the Board and its Assistant Attorney General to fully implement this recommendation but did not provide an estimated time frame for doing so.

1.3 The Board should develop and implement policies and procedures establishing an eligibility assessment and award process to help ensure it approves only eligible projects. These policies and procedures should address the following:

- a. Identifying the information that needs to be submitted with project applications to allow the Board to assess compliance with all statutory eligibility criteria;

#### **Implementation in process**

Although the Board has not yet developed and implemented written policies and procedures establishing an eligibility assessment and award process, it has developed and begun using an eligibility checklist to help board staff identify the eligibility information and documentation that school districts should submit with BRG Fund project applications. However, the eligibility checklist does not identify the information that should be submitted to demonstrate that a BRG Fund project will be completed within 12 months unless similar projects, on average, take longer to complete, as required by statute. Board management reported that the eligibility checklist will eventually be replaced

## Recommendation

## Status/Additional Explanation

- b. Including guidance to assist school districts in developing and submitting completed project applications with all required eligibility information and documentation;
- c. Requiring board staff to ensure that all the necessary eligibility information and documentation has been submitted. The Board should consider developing a tool, such as a checklist, to facilitate this review;
- d. Including guidance for reviewing and assessing compliance with eligibility criteria, such as the requirement for school districts to perform routine preventative maintenance and that proposed projects will address noncompliance with the minimum adequacy guidelines established by the Board;
- e. Ensuring that all eligibility criteria is assessed and applied appropriately and consistently. The Board should consider developing tools, such as decision matrices or checklists, to help guide assessments;

by changes it plans to make to its online project applications. According to board management, these changes will require school districts to submit information and documentation related to all statutory eligibility requirements with their project applications. Board management estimated that it will complete the changes to its project applications by March 2020.

### **Implementation in process**

The Board's eligibility checklist is available on its website and includes a list of documents and other information that school districts are required to submit with project applications. The Board's website also includes other project application guidance for school districts, including a YouTube video that provides instructions for submitting an online project application and a document outlining the minimum information that should be included in project assessment reports. Board management also reported that planned changes to its online project applications will require school districts to submit information and documentation related to all statutory eligibility requirements with their project applications and estimated that it will complete these changes by March 2020.

### **Implementation in process**

According to the Board, its staff use the eligibility checklist to ensure its board meeting agenda packets (agenda packets) include all required eligibility documentation a school district has submitted related to a proposed project. However, although the agenda packets we reviewed included completed eligibility checklists that indicated school districts submitted all required information and documentation listed on the eligibility checklists, the agenda packets did not always include all the documentation listed.

### **Not implemented**

Although the Board's eligibility checklists include a step for board staff to review BRG project application information school districts submit, the Board has not developed any policies, procedures, or other guidance for staff to follow when reviewing and assessing a BRG project application's compliance with eligibility criteria. Board management reported that it plans to develop a written procedure to guide board staffs' eligibility assessments and estimated that it will complete and implement the procedure in September 2019.

### **Not implemented**

Board staff and management discuss project eligibility assessments and recommendations during weekly operations meetings. However, the Board has not developed any policies, procedures, or other guidance to help ensure eligibility criteria is appropriately and consistently assessed and applied during these discussions.

## Recommendation

## Status/Additional Explanation

- f. Documenting eligibility assessments consistently and with sufficient detail to ensure transparency and allow for supervisory review;
- g. Requiring a documented assessment of project eligibility before the Executive Director approves project awards as authorized by board policy, and documenting these assessments;
- h. Conducting and documenting supervisory reviews of project eligibility assessments and recommendations before providing recommendations to the Board; and
- i. Specifying the eligibility and project information that should be provided to the Board for each project application along with board staff's recommendation to help ensure that the Board has all the information it needs to make consistent and appropriate project award decisions.

### **Not implemented**

The Board has not developed any policies or procedures requiring documentation of eligibility assessments. However, board staff and management discuss board staffs' project eligibility assessments and recommendations during weekly operations meetings. In August 2019, board management reported that it planned to begin documenting these eligibility discussions in meeting minutes.

### **Implemented at 24 months**

### **Not implemented**

The Board has not developed any policies or procedures for conducting and documenting supervisory reviews of project eligibility assessments and recommendations. However, board management conducts supervisory reviews of board staffs' project eligibility assessments and recommendations during weekly operations meetings, and board management reported that it planned to begin documenting these eligibility discussions in meeting minutes (see explanation for Recommendation 1.3f).

### **Implementation in process**

See explanation for Recommendation 1.3c.

1.4 The Board should work with its Assistant Attorney General to determine if the Board has the statutory authorization to allow board staff to deny projects. If the Board determines that it has this authority and then authorizes its staff to notify school districts that their projects do not meet eligibility criteria prior to board review and either deny the proposed projects or request that school districts withdraw the proposed projects, it should develop and implement policies and procedures directing this process. These policies and procedures should require the following:

- a. A documented basis for board staff's determination that a project is ineligible; and

### **Implementation in process**

As reported in the initial followup, Laws 2018, Ch. 285, §13, prohibits board staff from requesting that a school district withdraw a project application prior to board review if staff determine that the proposed project may be ineligible for funding, but permits board staff to notify a school district in writing that a proposed project does not meet the statutory eligibility criteria prior to board review. The Board has not yet

**Recommendation****Status/Additional Explanation**

- b. School district notification protocols, including procedures for clearly explaining the reasons for ineligibility and documenting the notifications.

developed and implemented written policies and procedures for this notification process, but its staff use a template email to notify districts that a project does not meet the statutory eligibility criteria.

**Implementation in process**

See explanation for Recommendation 1.4a.

- 1.5 Once the Board has developed the recommended policies and procedures, it should train board staff to help ensure they are consistently followed.

**Not yet applicable**

The Board has not yet developed all the recommended policies and procedures. Therefore, this recommendation is not yet applicable.

- 1.6 The Board should work with its Assistant Attorney General to ensure that its policies and procedures are consistent with the Board's statutes.

**Implementation in process**

Although the Board has not yet developed all the recommended policies and procedures, it has worked with its Assistant Attorney General to ensure the changes it has made to its policies and procedures are consistent with the Board's statutes.

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**Finding 2: Board should develop processes to help ensure approved projects are completed successfully**

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- 2.1 The Board should develop and implement written policies and procedures for assessing school districts' capabilities to ensure the completion of projects. These policies and procedures should:

- a. Specify the information that school districts must submit to allow board staff to assess school districts' capabilities to effectively plan, manage, and oversee projects;
- b. Include guidance directing board staff on how to assess school districts' capabilities to manage and oversee projects. This guidance should require board staff to consider factors such as the type of professional and technical management skills needed to accomplish the project, whether the school district already employs qualified personnel with these skills or needs to contract for professional and technical assistance, and the school district's ability to carry out the responsibilities of managing the project;

**Not implemented**

The Board reported that it plans to make changes to its electronic BRG Fund project application that will require school districts to submit information about their capabilities to effectively plan, manage, and oversee projects. Board management estimated that it will complete the changes to its project applications by March 2020.

**Not yet applicable**

The Board has not yet developed policies and procedures specifying the information that school districts must submit to allow board staff to assess their capabilities to ensure the completion of projects (see explanation for Recommendation 2.1a). Therefore, this recommendation is not yet applicable.

## Recommendation

## Status/Additional Explanation

- c. Specify the guidance that the Board will provide to school districts, such as through its application forms, to help ensure that all school districts submit required personnel resource and scope of work information to the Board; and
- d. Specify the information that school districts must include in proposed scopes of work, including project time frames, to provide the Board with the information it needs to assess project scopes of work and hold school districts accountable for ensuring the appropriate and timely completion of projects.

### Not implemented

As of August 2019, board management reported that board staff had begun regularly meeting with district staff to discuss scope of work at various points prior to the start of construction. However, it did not provide documentation of these meetings and reported that the meetings did not include personnel resource discussions.

### Not implemented

See explanation for Recommendation 2.1c.

2.2 The Board should develop and implement written policies and procedures for overseeing school district compliance with project award terms and conditions agreements. The policies and procedures should:

- a. Establish the oversight activities board staff should perform to ensure school district compliance with the project award terms and conditions including conducting site visits, periodically reviewing status reports, and reviewing change orders.
- b. Include guidance directing board staff on how to carry out the oversight activities established by the Board, such as specifying the frequency of oversight activities, under what conditions they should be performed, and how to document the performance of those activities; and

### Implementation in process

The Board sometimes receives documents from project architects certifying that the work listed on vendor invoices has been completed as outlined in project contract documents, and board liaisons review these documents as part of the Board's payment request process.<sup>1</sup> However, project architects do not submit these documents for all projects. In addition, some projects do not require design services and, thus, do not include a project architect. Further, although the Board has developed a draft policy and procedure that outlines when to review school district compliance with project award terms and conditions, it does not establish the specific oversight activities that board staff should perform to ensure school district compliance with project award terms and conditions, such as conducting site visits and periodically reviewing status reports.

### Not implemented

Although the Board has developed a draft policy and procedure for reviewing terms and conditions, the draft policy and procedure do not include guidance for board staff on how to carry out oversight activities the Board establishes (see explanation for Recommendation 2.2a).

<sup>1</sup> Schools districts must submit payment requests to the Board to receive distributions of BRG Fund monies, and these payment requests must include vendor invoices for work that has been completed.

**Recommendation****Status/Additional Explanation**

- c. Establish a supervisory review process, including using a checklist, to ensure that board staff are consistently and appropriately overseeing school district compliance with the project award terms and conditions.

**Implementation in process**

The Board sometimes receives documents from project architects certifying that the work listed on vendor invoices has been completed as outlined in project contract documents, and board liaisons review these documents as part of the Board's payment request process. The Board's fiscal services manager and its deputy director for finance review liaisons' work during the payment-request process. However, the Board has not established a supervisory review process for board staff's oversight of school district compliance with the project award terms and conditions when project architects do not submit these documents or for projects that do not require design services and, thus, do not include a project architect.

**Finding 3: Board should improve its information technology database management**

- 3.1 The Board should continue its efforts to address weaknesses related to poor network user account management and inadequate password controls.

**Implemented at 24 months**

- 3.2 The Board should align its IT policies and procedures with ASET standards and IT best practices by developing and implementing policies and procedures for:

- a. Limiting the number of consecutive invalid logon attempts before an account is locked;

**Implementation in process**

As reported in the initial followup, the Arizona Strategic Enterprise Technology (ASET) Office manages the Board's password controls, including limiting the number of consecutive invalid logon attempts before an account is locked. According to ASET management, all state agencies are required to develop, document, maintain, and update IT security policies and procedures, regardless of whether the agency or a third party, such as ASET, manages the agency's IT security. As of August 2019, the Board had developed and begun implementing password control policies and procedures that included requirements for limiting the number of consecutive invalid logon attempts before an account is locked, but we found that it was not following its policy requirements for limiting the number of consecutive invalid logon attempts. We will further assess implementation of this recommendation as part of the Board's sunset review, which is statutorily due to the Legislature by October 1, 2021.

- b. Requiring a staff member's user accounts to be deleted when he/she leaves board employment;

**Implemented at 24 months**

## Recommendation

## Status/Additional Explanation

- c. Conducting periodic, comprehensive reviews of all existing employee access accounts to ensure that users' network and system access is needed and compatible with job responsibilities;
  
- d. Requiring passwords to be at least eight characters long, complex, changed every 90 days, and to expire after a predetermined amount of time; and
  
- e. Requiring that IT system activity logs and other agency information be periodically reviewed and analyzed for inappropriate use.

### Implementation in process

As of April 2019, the Board had developed and begun implementing policies and procedures for reviewing employee access accounts to ensure that users' network and system access is needed and compatible with job responsibilities. However, these policies and procedures do not require regular reviews of all accounts but instead require account review only when staff are hired or change positions. We also identified that the Board had granted system access to some board staff that was incompatible with their job responsibilities. Specifically, in January 2018, the Board implemented an online payment request system to facilitate processing school districts' payment requests to receive BRG Fund monies. We found that the Board's liaisons, who are responsible for reviewing and approving school districts' payment requests, also had access to create and submit district payment requests and to change information submitted by school districts, which was incompatible with their job duties. We will further assess implementation of this recommendation as part of the Board's sunset review, which is statutorily due to the Legislature by October 1, 2021.

### Implemented at 24 months

### Not implemented

As reported in the initial followup, ASET manages the Board's IT domain, including monitoring the Board's logs for inappropriate activity, and the Board has developed a draft system security audit policy, indicating that ASET would review and analyze its information system audit records periodically for indications of inappropriate or unusual activity and report findings to the appropriate board staff. However, the Board has yet to develop and implement written policies or procedures specifying the types of activities ASET should monitor and report to it or outlined time frames for doing so and procedures that board staff should follow when ASET reports unusual activity to the Board.

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- 3.3 The Board should develop and implement a disaster recovery and contingency plan. The plan should address how the Board will recover its database and maintain essential mission and business functions if a disruption or failure occurred. Additionally, the plan should require board data to be backed up periodically using a board-defined cycle that is based on the criticality of its business processes. Further, the Board should periodically test and update its disaster recovery and contingency plan as needed and should validate the integrity of the backup data.

### Implementation in process

As of April 2019, the Board had developed a procedure requiring board data to be backed up nightly and policies that require it to annually test and update its disaster recovery and contingency plan and validate the integrity of its backup data. As of August 2019, the Board has also developed a draft Continuity of Operations Plan (COOP) to address the Board's response to emergencies and extended disruptions of service. The Board did not provide an estimated time frame for completing its draft COOP.

**Recommendation****Status/Additional Explanation**

3.4 To help ensure all future IT systems are developed and maintained in line with IT standards and best practices, the Board should develop and implement a formal SDLC methodology. This methodology should outline the phases involved in an information system development project from the initiation phase through the system's sunset.

**Implementation in process**

The Board has begun to develop a formal SDLC methodology, but it has not yet begun developing specific procedures for implementing the methodology for each phase of the SDLC process. The Board did not provide an estimated time frame for completing specific procedures for each phase of the SDLC process.

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**Sunset Factor #2: The extent to which the Board has met its statutory objective and purpose and the efficiency with which it has operated**

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1. Continue to take steps to determine how it will meet its statutory requirements to conduct school building inspections, develop and implement policies and procedures for conducting and documenting inspections of school districts, and train staff accordingly.

**Not Implemented**

As of August 2019, the Board reported that it had conducted school facility inspections at 4 school districts in calendar year 2019, but it had not completed inspection reports and did not have other documentation demonstrating that it had conducted the inspections. Additionally, it had not yet developed policies and procedures for conducting and documenting facility inspections.

2. Follow its policy for prioritizing BRG Fund requests according to statute and develop and implement a procedure for doing so.

**Implemented at 24 months**

3. Develop and implement policies and procedures for ensuring the accuracy and completeness of building inventory information in its database. The policies and procedures should require that the Board:

a. Send an annual notice to school districts reminding them of their statutory responsibility to submit updated facility information. Further, the Board should formalize in its policies and procedures its current practice of requiring school districts to submit updated facility information to the Board prior to receiving any BRG Fund monies; and

**Implemented at 24 months**

b. Reflect unapproved building changes in its database. For example, when the Board becomes aware that a school district has made an unapproved change to its buildings, the Board should reflect the change in its database to ensure that it accurately reflects the school district's facility inventory, but also indicate it as an unapproved change.

**Implemented at 24 months**

## Recommendation

## Status/Additional Explanation

4. Modify its database to allow staff to accurately classify the status of individual buildings, such as whether school buildings are open or closed; and develop and implement a procedure to ensure that board staff accurately classify the status of individual school district buildings in the database.

### Implementation in process

As of August 2019, the Board reported that it had not yet modified its database to allow staff to accurately classify the status of individual buildings but was using existing information to identify individual building status. Specifically, A.R.S. §15-183 requires the Board to annually publish a list of vacant and unused school district buildings that may be suitable for operating a charter school. Using this list, board staff can identify the status of individual buildings based on the percent of vacant and unused buildings indicated on the list. For example, a building listed as 100 percent vacant is not in use for academic purposes.

5. Update its records retention schedule to include its current programs and records.

### Not Implemented

As reported in the initial followup, board staff met in March 2018 to discuss updates to the Board's existing records retention schedule, but these updates are not yet finalized and posted to the Arizona State Library, Archives and Public Records website. As of August 2019, Board management reported that the changes were nearly completed, but it did not provide a copy of its revised retention schedule.

## Sunset Factor #3: The extent to which the Board serves the entire State rather than specific interests

6. Develop and implement a process for helping to ensure school districts are aware of the services that the Board provides and monies that are available for facility construction, renovation, and repair projects. This process should specify the type and frequency of communications with school district officials and include developing and maintaining an updated list of responsible school district officials.

### Implementation in process

The Board has developed a school district notification procedure that provides information about its services and monies that are available for facility construction, renovation, and repair projects. The written procedure includes links to the Board's website for this information. In June 2019, the Board sent the written procedure to school districts and, as of August 2019, the procedure was available on the Board's website. The Board has also developed an updated list of school district officials that is available on its website. In addition, the Board has created YouTube videos that help school districts to apply for BRG Fund projects and request BRG Fund monies, including instructions for using the Board's online payment request system (see explanation for Recommendation 3.2c for more information on the Board's online payment request system). However, the Board's school district notification procedure includes links to pages on its website that do not provide descriptions of the services that the Board provides and monies that are available for facility construction, renovation, and repair projects.

**Recommendation****Status/Additional Explanation**

**Sunset Factor #5: The extent to which the Board has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public**

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| 7. | Ensure that board meeting minutes are available within 3 business days of each board meeting to comply with the State's open meeting law.  | <b>Implemented at 6 months</b> |
| 8. | Notify its website users of potential inaccuracies in the school building inventory database information that is available on its website. | <b>Implemented at 6 months</b> |
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