**November 30, 2021**

**Arizonans for Charter School Accountability**

**Complaint regarding BASIS Schools miscoding of administrative expenses on Annual Financial Reports 2018-2021**

Arizona districts and charter schools are required to report expenditures based on the Unified System for Financial Reporting (USFR) on required Annual Financial Reports to assure that expenditures are coded in a consistent manner by all schools.

Arizonans for Charter School Accountability (ACSA) has filed complaints with the Arizona Office of the Auditor General (OAG), Arizona Department of Education (ADE), and the Arizona State Board for Charter Schools (ASBCS) every year since 2018 regarding the ploy by BASIS Schools to report school administrative expenses as instructional support on Annual Financial Reports (AFR). Multiple complaints have been filed with the Arizona Ombudsman Office concerning the failure of all three state agencies to determine the legitimacy of the BASIS reporting.

BASIS has chosen to code a large portion of 2400 School Administration expenses as 2200 Instructional Support in AFR’s 2018-2021, thereby greatly reducing the perception of administrative spending by the company. BASIS is the 15th largest school district in Arizona and this misrepresentation completely skews state charter school instructional spending averages and BASIS administrative spending as reported in the Superintendents Annual Report. It also gives parents the false impression that millions are going to support classroom instruction when, in reality, the funds are being expended on school management by CMO BASIS Ed Inc.

The chart below indicates that BASIS spent $14.8 million on instructional support in 2021, more than Mesa Unified with four times as many students. Similar sized school districts spend a fraction of that amount. This misrepresentation makes it appear that BASIS spends $1,000/pupil less for administration than competitor Legacy Traditional in 2021.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 2021 AFR Expenditures | BASIS Schools | Legacy Traditional | Sunnyside Unified | Glendale Union | Cartwright Elementary | Mesa Unified |
| 2021 October 1 Enrollment | 15,032 | 17,737 | 14,928 | 16,466 | 15,133 | 57,797 |
| 2100 Students | $4,151,009 | $3,663,823 | $1,891,009 | $4,739,616 | $2,070,189 | $21,892,756 |
| **2200 Instructional Staff** | **$14,881,200** | **$265,407** | **$1,250,482** | **$3,957,546** | **$4,116,883** | **$14,722,796** |
| 2300 General Administration | $4,449,363 | $6,935,987 | $1,001,483 | $2,011,955 | $2,830,307 | $2,678,967 |
| 2400 School Administration | $9,508,523 | $22,503,142 | $4,102,749 | $4,897,238 | $8,290,400 | $24,799,008 |
| 2500 Central Services | $3,050,158 | $8,580,817 | $2,051,912 | $3,772,844 | $3,734,851 | $12,409,999 |
| **Total 2300,2400,2500 Administration** | **$17,008,044** | **$38,019,946** | **$7,156,144** | **$10,682,037** | **$14,855,558** | **$39,887,974** |
| Administration/Pupil | **$1,131** | **$2,144** | **$479** | **$649** | **$982** | **$690** |

The six largest charter companies – Legacy, Great Hearts, ALA, EdKey, Academy of Math and Science, and Imagine representing 64,756 students spent a total of $5.5 million on instructional support while BASIS with 15,032 students claimed to have spent $14.8 million on instructional support in 2021.

|  |  |  |
| --- | --- | --- |
|  | 2200 Instructional Support | 2021 ADM |
| Legacy Totals | $265,407 | 17,737 |
| BASIS Totals | $14,881,200 | 15,032 |
| Great Hearts Totals | $3,084,781 | 13,508 |
| American Leadership Academy | $1,744,042 | 10,265 |
| Edkey Totals | $121,894 | 8,438 |
| Academy of Math And Science Totals | $136,264 | 7,877 |
| Imagine Totals | $196,180 | 6,931 |
| Total W/O BASIS | $5,548,568 | 79,787 |

BASIS executives explained their rational for the reporting in a letter to ASBCS dated May 2, 2019, basically saying “this is how we decided to do it.” (See Exhibit 1)

*“In FY2018, BASIS Mesa made a change in its coding for certain positions based on the functions those roles served at the school. Specifically, the Support Services-Instruction (2200) code was used for the Head of School, the Director of Academic Programs, the Director of Student Affairs, the Dean, and the Curriculum Coordinator.”*

ASBCS closed the BASIS complaint with the explanation made to all concerns regarding inaccurate AFR reporting: (See Exhibit 2)

*“After additional review of the complaint, the school’s response, and the documentation provided, and notwithstanding any other law or regulation, issues with the amounts disclosed on the Annual Financial Report (AFR) and/or budget are issues that must be raised with the Arizona Department of Education which oversees the AFR and budget. The matters at hand do not raise an issue of violation of law or the charter contract; therefore, the complaint is now closed.”*

ASBCS, however, has specific requirements for financial reporting, even for charters like BASIS that have an exemption from following the USFRCS. In a memorandum dated August 29, 2019, the Charter Board laid out these guidelines for financial reporting”: (See Exhibit 3)

*“Specifically, through the Board’s exception process, a charter holder granted a USFRCS exception agrees:*

*1.To utilize a chart of accounts that has been developed to align with the chart of accounts found in the USFRCS for the purposes of complying with budgeting and annual financial reporting (i.e., the Budget and AFR); and*

*2.To be responsible for any “cross-walks” necessary to complete reporting requirements. This means if the charter holder uses a chart of accounts other than the one prescribed in the USFRCS, then the charter holder must “cross-walk” its account codes to those used in the USFRCS when completing the annual Budget and AFR submitted to the Arizona Department of Education*.

The Charter Board has these specific rules for financial reporting, but then claims they have no jurisdiction over the BASIS AFR misrepresentations.

The 2021 USFRCS definition of 2200 Instructional Support does not include the Head of School (principal), Dean of Students, or the Director of Student Affairs:

***2200 Support Services—Instruction****—Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students, instruction-related technology, and academic student assessment. This function also includes curriculum directors, special education directors, or others who supervise staff performing these functions.*

***2210 Heads of Components Support Services—Instruction****—Activities associated with the overall administration of Instructional Support Services* ***below the executive level****. See description of heads of components on page* ***III-A-5****.*

***2220 Improvement of Instruction****—Activities primarily for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students. These activities include curriculum development, developing instruction techniques, child development and understanding, and staff training.*

The Texas Department of Education does not allow BASIS to report administrative spending in this way. BASIS Texas reported no expenditures for Instructional Resources & Media Services and Instructional Leadership in 2021 and $4,632,480 for School Leadership in their Texas 2020-21 Budget. (See Exhibit 4)

Arizonans for Charter School Accountability has simply asked the OAG, ADE, and ASBCS to rule if all schools in Arizona can also claim the that spending for their principal and dean of students (administrator in charge of student discipline) are not school administration expenditures to be disclosed on the AFR. All other charters and districts in Arizona should be notified of the option to report school principal’s salaries as instructional support on annual financial reports.

Instead, all three agencies refused to make determine the appropriateness of BASIS reporting of administrative expenditures:

* **The OAG** is the agency responsible for determining what expenses constitute administrative spending based on the Uniform System for Financial Records for Charter Schools (USFRCS) they created to fulfill ARS 15-271. Since the statute does not specifically mention charter schools in the OAG’s responsibilities for enforcing USFR rules, the OAG claims that charter school financial reporting is not their problem. (See Exhibit 5)

*This is in response to your email dated November 12, 2019, to Ms. Fernandez, Mr. Graham, and Ms. Hanson. In July 2019, we responded to your email and addressed similar concerns about charter schools’ budget and AFR reporting (see attached email).*

*The Auditor General’s Office does not have the authority to resolve disputes against the Arizona State Board for Charter Schools. You may consider contacting them directly to address your complaints.*

* **ADE and ASBCS** responded to the numerous BASIS AFR complaints on December 12, 2020 in a joint letter that did not address the specific issues, but rather hopes and dreams for fixing the problem in the future. (See Exhibit 6)
  + Whitney Marsh, Deputy Chief of Staff at ADE, explained that School Finance was updating their software over the next three years that will catch AFR inconsistencies. In the meantime “ADE school finance will complete manual checks for reasonability as capacity allows and will email the related charter holder in cases of unexplained variances or missing information.” ADE has failed to follow up on complaints filed against BASIS. This was the first and only response ADE has made to multiple AFR complaints since 2016.
  + Ashley Berg, Executive Director of ASBCS, indicated that ASBCS would work to implement additional questions on the required Legal Compliance Questionnaire that would address the accuracy of AFR submissions. ASBCS failed to implement those changes, largely because charter owners complained that it would increase audit expenses. Instead, ASBCS simply rejects any complaint regarding AFR accuracy/omission stating it is an ADE issue.

The OAG, ADE, and ASBCS refuse to make a specific ruling as to the appropriateness of BASIS shifting school administration expenses to instructional support spending.

John Wicus of the Ombudsman Office has been kept apprised of the lack of response from the three state agencies. ACSA sent him a detail account of the BASIS complaints, with all supporting correspondence, on April 27, 2021. Mr. Wicus failed to acknowledge the email and has not followed up with the agencies. (See Exhibit 7)

**ACSA is requesting a specific response from the OAG, ADE, and/or ASBCS regarding the appropriateness of BASIS posting 2400 school administrative expenses of the principal’s office to 2200 instructional support on budgets and AFR’s. We are requesting the Ombudsman Office to assure that the three state agencies respond to this request.**

Jim Hall

Arizonans for Charter School Accountability

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**Exhibit 1 – Response letter from BASIS Schools May 2, 2019**

COMPLAINT RESPONSE FOR BASIS MESA Submitted: May 2, 2019

This supplemental response is submitted to the Arizona State Board for Charter Schools (ASBCS) on behalf of BASIS Mesa (the School) in response to a request for supplemental information regarding the March 12, 2019 complaint from Jim Hall (Complainant). Specifically, ASBCS requested information regarding which positions were coded into which Support Services categories.

In FY2017, BASIS Mesa reported all administrative and management personnel using the code for Support Services-School Administration (2400). This included the Head of School, Head of Operations, Auxiliary Programs Coordinator, Facilities Coordinator, Technology Coordinator, Front Office Coordinator, Curriculum Coordinator, Special Education Coordinator, Registrar, College Counselor, Dean, Director of Academic Programs, and Director of Student Affairs. Essentially, this category was used for all non-teaching staff. No staff were reported for this fiscal year using the code for Support Services-Instruction (2200).

In FY2018, BASIS Mesa made a change in its coding for certain positions based on the functions those roles served at the school. Specifically, the Support Services-Instruction (2200) code was used for the Head of School, the Director of Academic Programs, the Director of Student Affairs, the Dean, and the Curriculum Coordinator. The other non-teaching staff identified by role in the preceding paragraph remained coded in Support Services-School Administration (2400), with the exception of the Facilities Coordinator. The Facilities Coordinator was moved to the Operations and Maintenance of Plant code (2600).

**Exhibit 2 – ASBCS explanation for closing BASIS AFR complaint**

RE: Complaint filed against BASIS Mesa

Dear Jim Hall:

All complaints submitted to this office are reviewed and processed in accordance with the oversight responsibilities and jurisdiction of the Arizona State Board for Charter Schools (ASBCS).

The documentation you submitted and the school’s response have been reviewed in accordance with ASBCS policies and procedures. After additional review of the complaint, the school’s response, and the documentation provided, and notwithstanding any other law or regulation, issues with the amounts disclosed on the Annual Financial Report (AFR) and/or budget are issues that must be raised with the Arizona Department of Education which oversees the AFR and budget. The matters at hand do not raise an issue of violation of law or the charter contract; therefore, the complaint is now closed.

**Exhibit 3 – ASBCS USFRCS Reporting Requirements**

ASBCS Newsletter August 29, 2019

What Does It Mean to Have a USFRCS Exception?

The charter law subjects charter schools to the same financial and electronic data submission requirements as school districts. These requirements include the Uniform System of Financial Records for Charter Schools (“USFRCS”), procurement rules, annual audit, Budget, and Annual Financial Report (“AFR”). The charter law also permits charter school sponsors to grant exceptions to these requirements. Through the amendment process, the Arizona State Board for Charter Schools (“Board”) grants exceptions to the procurement rules and USFRCS. In developing its USFRCS exception request years ago, the Board recognized the role the USFRCS plays in ensuring, through the USFRCS Chart of Accounts, that financial data are consistently reported to the State, are available for the Superintendent’s Annual Report, and are comparable among Arizona public schools. Therefore, instead of granting a blanket exception to the USFRCS, the Board established parameters. Specifically, through the Board’s exception process, a charter holder granted a USFRCS exception agrees:

1.To utilize a chart of accounts that has been developed to align with the chart of accounts found in the USFRCS for the purposes of complying with budgeting and annual financial reporting (i.e., the Budget and AFR); and

2.To be responsible for any “cross-walks” necessary to complete reporting requirements. This means if the charter holder uses a chart of accounts other than the one prescribed in the USFRCS, then the charter holder must “cross-walk” its account codes to those used in the USFRCS when completing the annual Budget and AFR submitted to the Arizona Department of Education.

While the annual Budget and AFR fall under the purview of the Arizona Department of Education and not the Board, the law requires and the Board expects charter schools in the Board’s portfolio to accurately and timely complete the Budget and AFR. The Board granting a USFRCS exception to a charter holder does not change that. To be clear, the USFRCS exception does not negate or alter a charter holder’s responsibility to properly report its financial data on the annual Budget and AFR according to the USFRCS revenue and expense codes.

With the start of the new school year, please review your chart of accounts with your business office or business service provider to confirm your accounting transactions are coded to the USFRCS Chart of Accounts or that the appropriate cross-walks are in place to ensure accurate reporting beginning with the fiscal year 2019 AFR. To review the USFRCS Chart of Accounts, visit https://www.azauditor.gov/reports-publications/charter-schools/manuals-memorandums.

**Exhibit 4 - BASIS Texas 2020-21 Budget**

|  |  |  |  |
| --- | --- | --- | --- |
| **2020 - 2021 Budgeted Financial Data** | | | |
|  | | | |
| **Totals for BASIS TEXAS (015834)** | | | |
| **Total Enrolled Membership: 3,048** | | | |
|  |  |  |  |
|  | **District** | | |
|  | **General Fund** | **%** | **Per Student** |
| Instruction (Function 11,95) | $12,584,389 | 45.27% | $4,129 |
| Instructional Resources & Media Services (Function 12) | $0 | 0.00% | $0 |
| Curriculum & Staff Development (Function 13) | $421,676 | 1.52% | $138 |
| Instructional Leadership (Function 21) | $0 | 0.00% | $0 |
| School Leadership (Function 23) | $4,632,480 | 16.66% | $1,520 |
| Guidance Counseling Services (Function 31) | $1,437,058 | 5.17% | $471 |
| Social Work Services (Function 32) | $0 | 0.00% | $0 |
| Health Services (Function 33) | $0 | 0.00% | $0 |
| Transportation (Function 34) | $0 | 0.00% | $0 |
| Food Services (Function 35) | $0 | 0.00% | $0 |
| Extracurricular (Function 36) | $291,239 | 1.05% | $96 |
| General Administration (Function 41,92) | $3,041,672 | 10.94% | $998 |
| Facilities Maintenance & Operations (Function 51) | $4,731,842 | 17.02% | $1,552 |
| Security & Monitoring Services (Function 52) | $0 | 0.00% | $0 |
| Data Processing Services (Function 53) | $658,953 | 2.37% | $216 |
| Community Services (Function 61) | $0 | 0.00% | $0 |
| **Total Operating Expenditures by Function** | $27,799,309 | 100.00% | $9,121 |

**Exhibit 5 – OAG response to charter errors and omissions on AFR’s**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| |  | | --- | | **AZ Auditor General's Office - ASD <asd@azauditor.gov>** | | | | AttachmentsWed, Nov 20, 2019, 4:43 PM |
|  |  |
|  |

|  |
| --- |
| Dear Mr. Hall,  This is in response to your email dated November 12, 2019, to Ms. Fernandez, Mr. Graham, and Ms. Hanson. In July 2019, we responded to your email and addressed similar concerns about charter schools’ budget and AFR reporting (see attached email).  The Auditor General’s Office does not have the authority to resolve disputes against the Arizona State Board for Charter Schools. You may consider contacting them directly to address your complaints.  If you have additional concerns regarding charter school matters within our Office’s purview, please direct future correspondence to our Office’s Accounting Services Division at [asd@azauditor.gov](mailto:asd@azauditor.gov).  Sincerely,  Melanie M. Chesney  Deputy Auditor General and Interim Accounting Services Division Director |

**Exhibit 6 – ADE and ASBCS response to charter errors and omissions on AFR’s**

+

**Exhibit 7 - Complaint made to the Ombudsman Office April 27, 2021**

John Wicus

Arizona Ombudsman Office

April 27, 2021

Arizonans for Charter School Accountability (ACSA) filed complaints on November 24, 2020 against each Arizona BASIS charter school with the Arizona State Board for Charter Schools (ASBCS) and the Arizona Department of Education Finance Division (ADE). The complaints regarded longstanding issues with errors and omissions that continued on all 2020 BASIS Annual Financial Report (AFR) submissions. (See Appendix 1)

ACSA has reported extensively on the lack of supervision of charter financial reporting by both ASBCS and ADE, allowing charter owners to misrepresent the expenditure of public funds on required AFRs. An ACSA report was published by the Washington Post in January of 2018 detailing our concerns. The issue still has not been addressed. (<https://www.washingtonpost.com/news/answer-sheet/wp/2018/01/16/the-mess-in-arizonas-charter-school-sector/>).

Accountability Specialist Jesse Berg at ASBCS confirmed on December 7, 2020 that all BASIS schools had been advised of the November 24th complaint and had until December 21, 2020 to respond. (See Appendix 2). Lyle Friesen, ADE Associate Superintendent of Finance, emailed on November 30, 2020: “We have a meeting scheduled later this week to discuss responsibility’s related to the attached complaint. Myself or someone else will respond to your complaint after the meeting.” (See Appendix 3). (This is the first response ACSA has ever received from ADE regarding numerous AFR complaints filed with Finance over the last five years.)

We subsequently received a letter signed jointly by ASBCS Director Ashley Berg and ADE Deputy Chief of Staff Whitney Marsh on December 21, 2020. Ms. Marsh explained that ADE has a three-year plan to check AFR’s and would do manual checks until implemented:

*The Arizona Department of Education (ADE) is currently in year one of a three-year IT project to*

*replace the school finance payment and budget systems. As part of that development, ADE will*

*be able to automate queries in the Annual Financial Report data submissions to identify*

*variances, check for missing information and validate reasonability. With that system in place,*

*ADE will implement a process to use that information to notify charter holders and the State*

*Board for Charter Schools of errors or concerns. It is anticipated that the new budget system will*

*be implemented in July 2022. Prior to the new budget system completion, ADE school finance*

*will complete manual checks for reasonability as capacity allows and will email the related*

*charter holder in cases of unexplained variances or missing information.*

There has been no further communication from ADE regarding the specific BASIS complaint.

Ms. Berg indicated that ASBCS was working on adding three questions regarding financial reporting to the 2021 Legal Compliance Questionnaire:

*“The Board will work on adding the three AFR questions found in the school district compliance*

*questionnaire and the Board’s USFRCS Compliance Questionnaire to the Board’s fiscal year*

*2021 Legal Compliance Questionnaire. Most of the annual audits submitted to the Board include*

*the Legal Compliance Questionnaire. Board staff will notify ADE of those charter holders with*

*“no” answers, so that ADE can determine the appropriate follow-up action. Board staff will*

*monitor for repeated “no” answers to these questions. If a repeated “no” answer is identified, the*

*matter will be noted on the charter holder’s operational performance dashboard and the Board*

*will utilize existing processes to hold the charter accountable.”*

As of April 22, 2021 the Charter Board has not made no attempt to change the Questionnaire. The BASIS documentation logs on the ASBCS website do not indicate that the company complied with the December 21, 2020 deadline for a response to the complaint and as of April 22, 2021 we have not received any indication of the status of the complaint from the Charter Board.

ASBCS revised their complaint rules on December 15, 2020, removing all time restrictions for the Board to investigate and rule on public complaints. The Board also removed the requirement that the complainant receive the charter holder’s response to the complaint when they are informed of the Board’s decision. The BASIS complaints have not been closed five months after they were filed, and we have been forced to make a public records request for a copy of the BASIS response to the complaint. Hopefully, The Ombudsman Office will be able to obtain the BASIS response.

**Attached BASIS AFR Complaint:**

The BASIS complaint is significant and directly affects the total accuracy of the Superintendent’s Annual Report compiled by ADE from Annual Financial Report (AFR) submissions.

BASIS has shifted of millions of dollars out of reported administrative expenses into the instructional support category on the AFR. BASIS Schools reported the expenses of the principal, dean of students and other school administrative expenses as 2200 Instructional Support for the last three years. Both the Charter Board and ADE Finance have refused to question or correct this practice. As a result, BASIS administrative spending appears to be much lower than it actually is.

The chart below shows that all BASIS schools combined spent over $13 million for Instructional Support in 2020, while their larger competitor, Legacy Traditional, spent 1/10th that amount. The result of BASIS misreporting makes it appear that they spend $400-$600/pupil less on administration than their largest competitors. All other charters in the state combined spent $24 million for Instructional support in 2020 while BASIS claims to have spent $13 million. (Mesa Unified, with 59,000 students spent $13 million for Instructional Support in 2020).

|  |  |  |  |
| --- | --- | --- | --- |
| 2020 AFR Page 2 | Legacy Totals | BASIS Totals | Great Hearts Totals |
| ADM | 16,139 | 14,705 | 13,221 |
| 1000 Instruction | $38,783,144 | $52,154,764 | $49,035,054 |
| 2100 Students | $3,219,009 | $5,359,556 | $1,349,223 |
| 2200 Instructional Support | $1,305,728 | **$13,230,340** | $2,311,206 |
| 2300 General Administration | $0 | $4,326,648 | $0 |
| 2400 School Administration | $8,515,781 | $10,738,303 | $10,647,720 |
| 2500 Central Services | $20,731,434 | $3,313,291 | $10,555,600 |
| Total Administration | $29,247,215 | **$18,378,242** | $21,203,320 |
| Total Administration/ADM | $1,812 | **$1,250** | $1,604 |

The USFRCS has specific criteria for expenses classified as 2400 School Administration and 2200 Instructional Support and clearly the head of school is a school administration expense:

***2600 Support Services—Instruction****—Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students, including improvement of instruction (curriculum development and staff training for instructional staff), library/media services, instruction-related technology, and academic student assessment. This function also includes curriculum directors, special education directors, or others who supervise staff performing this function.*

***2400 Support Services—School Administration****—Activities concerned with overall administrative responsibility for a particular campus, including office of the principal services.*

ASBCS closed a similar complaint regarding BASIS classifications of instructional support and school administration in their 2018 AFR’s based on a BASIS response letter dated May 2, 2019, where BASIS claimed:

*“In FY2018, BASIS Mesa made a change in its coding for certain positions based on the functions those roles served at the school. Specifically, the Support Services-Instruction (2200) code was used for the* ***Head of School****, the Director of Academic Programs, the* ***Director of Student Affairs****, the* ***Dean****, and the Curriculum Coordinator.”* (See Appendix 4)

There isn’t a school in Arizona that codes the principal, dean of students, or the director of student affairs as instructional support. BASIS basically told ASBCS “that’s the way we do it” and the Charter Board simply said OK. ASBCS continues to allow the practice.

BASIS also consistently reports total spending in the “Summary of Current Expenses by Category” on Page 7 Section E that does not correspond to M&O data disclosed on page 2.

ADE Finance directly transfers the Summary data on page 7 data, without validation, to the Superintendent’s Annual Report Volume 1.

Using BASIS Peoria 2020 AFR data as an example, there is no relationship between page 2 expenditures and the summary expenses on page 7 - the summary data for Classroom Instruction and Support Services are each $1 million different than reported M&O expenditures:

BASIS Peoria 2020 AFR Page 7 Summary of Current Expenses and actual Page 2 Totals

|  |  |  |
| --- | --- | --- |
| [Current expenses by category](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategory) | Page 7 | Page 2 Totals |
| [1. Classroom instruction excluding classroom supplies](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine1) | **3,570,255** | **$2,531,909** |
| [2. Classroom supplies](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine2) | 33,868 | $33,868 |
| [3. Administration](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine3) | 990,871 | $989,275 |
| [4. Support services—students](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine4) | **1,056,785** | **$140,540** |
| [5. All other support services and operations](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine5) | 226,692 |  |
| 6. Total (lines 1-5) | 5,878,471 |  |
| [7. Current expenses from federal sources](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesbyCategoryLines7and8) | 78,809 |  |
| [8. Current expenses from State and local sources](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesbyCategoryLines7and8) | 5,799,662 |  |

The Superintendent’s Report is the only state document that discloses both district and charter per pupil spending. The highly inaccurate spending data BASIS consistently reports for administration, classroom instruction, and student support in their AFR’s makes any comparison with other charters useless and completely skews total charter per pupil spending calculated by the Report.

The Charter Board has the authority to regulate charter schools to assure they are meeting their contractual obligations. Each BASIS charter contract includes the requirement for the proper reporting of financial data and ASBCS clarified charters’ responsibility to report revenue and expenditures based solely on USFRCS object codes in their August 29, 2019 Newsletter:

*In developing its USFRCS exception request years ago, the Board recognized the role the USFRCS plays in ensuring, through the USFRCS Chart of Accounts, that financial data are consistently reported to the State, are available for the Superintendent’s Annual Report, and are comparable among Arizona public schools. Therefore, instead of granting a blanket exception to the USFRCS, the Board established parameters. Specifically, through the Board’s exception process, a charter holder granted a USFRCS exception agrees:*

*1.To utilize a chart of accounts that has been developed to align with the chart of accounts found in the USFRCS for the purposes of complying with budgeting and annual financial reporting (i.e., the Budget and AFR); and*

*2.To be responsible for any “cross-walks” necessary to complete reporting requirements. This means if the charter holder uses a chart of accounts other than the one prescribed in the USFRCS, then the charter holder must “cross-walk” its account codes to those used in the USFRCS when completing the annual Budget and AFR submitted to the Arizona Department of Education.*

*While the annual Budget and AFR fall under the purview of the Arizona Department of Education and not the Board, the law requires and the Board expects charter schools in the Board’s portfolio to accurately and timely complete the Budget and AFR. The Board granting a USFRCS exception to a charter holder does not change that. To be clear, the USFRCS exception does not negate or alter a charter holder’s responsibility to properly report its financial data on the annual Budget and AFR according to the USFRCS revenue and expense codes.*

[*https://asbcs.az.gov/sites/default/files/documents/files/ASBCS%20August%202019%20Newsletter.pdf*](https://asbcs.az.gov/sites/default/files/documents/files/ASBCS%20August%202019%20Newsletter.pdf)

But ASBCS has consistently refused to exercise their authority to hold charters accountable for accurate AFR reporting based on USFRCS object codes, the BASIS complaint being an obvious example. ADE has both the resources and authority to reject AFR submissions with errors and/or omissions but also fails to do so (but may get to it in three years).

The Auditor General (OAG) has the statutory responsibility to create the format and guidelines for charter AFR’s. Since 2019 the OAG specifically explained in the AFR Instructions that charters with USFRCS exemptions were still responsible for reporting based on URFSCS codes, not a random accounting system used by charter organizations (such as BASIS):

*All actual revenues, expenses, and account balances presented on the AFR must agree with the Charter's accounting records as of June 30, 2020.* ***Revenue and expense account codes used in the AFR agree with the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) Chart of Accounts. Charters that are exempted from all or part of the USFRCS in accordance with A.R.S. §15-183(E)(6) must use an accounting system that provides for the proper recording and reporting of financial data using USFRCS revenue and expense object codes.***

ACSA has made recommendations to the Auditor General to revise the upcoming 2021 AFR to try to force BASIS into compliance, since ASBCS and ADE appear to be afraid to supervise the second largest charter company in the state. (See Appendix 5) One simply has to ask, “What would happen if Mesa Unified reported AFR spending like BASIS does”? Financial data has to be consistently reported using USFR object codes or all school financial reporting is suspect.

Arizonans for Charter School Accountability requests that the Arizona Ombudsman intervene and require ASBCS, ADE Finance, and/or the OAG to make a ruling on the appropriateness of BASIS Schools misreporting administrative and instructional support spending and providing inaccurate category totals in Annual Financial Reports – the only financial document that details charter school’s expenditure of public money (charter annual audits are allowed to report spending as three numbers - program, management, and total expenditures).

Arizona currently operates under two systems of school financial accountability for the expenditure of public funds – a detailed, precise, and punitive system for school districts and a hands-off, laisse faire approach for charter schools that invites corruption and fraud. There needs to be one standard for financial reporting as long as public education funds are being expended.

Cc: Ashley Berg, Jesse Berg, ADE Finance, Lyle Friesen, Melanie Chesney, Whitney Marsh, Mary Ellen Lee, Hans-Dieter Klose, Mathew Mason, Timothy Stratton, Rachel Yanof

**Appendix 1- BASIS complaint filed with ASBCS and ADE November 2020**

Complaint re: BASIS Schools violation of their charter contract and state law by failing to accurately report financial information in all 22 BASIS Schools 2019 and 2020 Annual Financial Reports

November 24, 2020

Arizonans for Charter School Accountability

The opening directions in the 2020 Annual Financial Report state:

*“The AFR presents condensed financial activity (i.e., beginning and ending balances, revenues and expenses, and budget to actual comparisons of expenses for the fiscal year) of the Charter for comparison purposes. This information assists sponsors, charter governing boards, administrators, ADE, legislators, other governmental agencies, and taxpayers in determining whether charters are meeting their stewardship responsibilities.”*

BASIS Schools’ complete disregard for disclosing complete and accurate financial data on their Annual Financial Reports (AFR) seriously brings into to question if they are fulfilling their contractual obligations and are “meeting their stewardship responsibilities” in the expenditure of $117,000,000 in state education funds in 2020.

The contempt BASIS executives hold for following financial reporting rules makes the comparison of BASIS schools with other charter schools and districts impossible. The Annual Superintendent’s Report submitted by ADE to the Legislature every January is the only place where charter per pupil expenditures are published by the state and are based solely on data in charter Annual Financial Reports. The inaccurate AFR data submitted by BASIS makes comparisons impossible and, because BASIS is the second largest charter company in Arizona, skews much of the data presented in the Superintendent’s Report.

Example 1: How many certified teachers work in Arizona charter schools? The 2020 charter AFRs reveal that there are 6,430 certified teachers in charter schools. But BASIS claims that 1,114 of their 1,140 teachers are non-certified – only claiming one certified special education teacher at each school to satisfy IDEA regulations. BASIS believes that the number of certified teachers working at their schools is a “trade secret” and even though the directions are clear in the AFR requiring the disclosure of the number of certified teachers employed. BASIS simply ignores the directions.

Example 2: 2200 Instructional Support is an object code in the AFR that refers to activities associated with curriculum development, training for instructional staff, library/media services, instruction-related technology, and academic student assessment. The average charter expenditure for Instructional Support in 2020 was $197/pupil. BASIS spent $900/pupil for Instructional Support in 2020 because they claim the salaries for the heads of schools, directors of student affairs, and other administrators are not School Administration expenses. This greatly lowers the perceived expenditures at BASIS for School Administration. BASIS claimed $13 million total for Instructional Support expenses while all of the other charter schools in Arizona combined had only $28 million total spending for Instructional Support.

The per pupil charter expenditures for administration that ADE releases in the Superintendent’s Report are meaningless because the second largest charter company in Arizona with over 14,000 students refuses to report their finances the way all other charters and districts are required to. For example, the 2019 Superintendent’s Report showed the administrative expenditures at BASIS Chandler as $1,066/pupil while their competitor Great Hearts Chandler Prep had administrative expenses of $1,935/pupil simply because Great Hearts follows the rules and BASIS is allowed to make their own rules. The Arizona State Board for Charter Schools and ADE were notified in 2019 about BASIS miscoding school administrator’s salaries and did nothing - knowingly posting deceptive information in the 2019 Report. The practice continued in 2020.

We have not found a single instance where data submitted by BASIS corresponds to publicly available data. For example:

**1. Every BASIS 2020 page 1 AFR Revenue disclosed State Equalization Assistance numbers that were different than the actual payout figures on the CHAR64-1 Payment Report.** Three BASIS schools reported significantly different state equalization revenue:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | CTDS | AFR 3110 State Equalization Assistance | Char64-1 | Difference |
| BASIS Schools, Peoria | 078588000 | $6,443,450 | $6,615,125 | $171,675 |
| BASIS Schools, Phoenix Primary | 78418000 | $4,916,825 | $4,066,102 | -$850,723 |
| BASIS Schools, Phoenix | 078403000 | $5,497,122 | $6,355,723 | $858,601 |

**2. The average teacher salaries in 2018 and 2019 for all BASIS Schools are different in the 2020 AFR than reported in the 2019 AFR on page 7. They are also different on each school’s website than either AFR.**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 2020 AFR | Website | 2020 AFR | 2019 AFR | Website | 2020 AFR | 2019 AFR | Website | 2020 AFR |
|  | CTDS | Average salary of all teachers employed in FY 2020 | Average salary of all teachers employed in FY 2020 | Average salary of all teachers employed in FY 2019 | Average salary of all teachers employed in FY 2019 | Average salary of all teachers employed in FY 2019 | Average salary of all teachers employed in FY 2018 | Average salary of all teachers employed in FY 2018 | Average salary of all teachers employed in FY 2018 | Total percentage increase in average teacher salary since FY 2018 |
| BASIS Flagstaff | 038707000 | $47,282 | $47,211 | $45,031 | $43,622 | $44,735 | $39,949 | $38,958 | $40,033 | 18.4% |
| BASIS Peoria | 078588000 | $48,980 | $49,714 | $46,613 | $45,986 | $47,228 | $42,437 | $41,800 | $43,036 | 15.4% |
| BASIS Chandler | 078589000 | $52,379 | $52,745 | $49,891 | $52,343 | $50,156 | $43,947 | $46,420 | $44,443 | 19.2% |
| BASIS OV | 078575000 | $44,790 | $45,991 | $43,217 | $42,634 | $43,797 | $39,244 | $38,703 | $40,221 | 14.1% |
| BASIS Scottsdale | 78736000 | $48,617 | $47,550 | $46,453 | $45,622 | $45,412 | $42,073 | $41,301 | $41,103 | 15.6% |
| BASIS Phoenix South Primary | 078282000 | $40,920 | $41,029 | $38,792 | $38,918 | $39,821 | $34,920 | $35,380 | $35,762 | 17.2% |
| BASIS Scottsdale Primary West | 78288000 | $37,854 | $40,621 | $36,016 | $38,592 | $38,989 | $0 | $0 | $35,417 | 0.0% |
| BASIS Chandler Primary North | 078236000 | $40,873 | $41,446 | $38,842 | $38,842 | $39,374 | $35,295 | $35,272 | $35,945 | 15.8% |
| BASIS Peoria Primary | 078283000 | $42,263 | $42,337 | $40,210 | $40,037 | $40,218 | $36,554 | $36,397 | $36,644 | 15.6% |
| BASIS Phoenix Primary | 78418000 | $39,418 | $40,541 | $37,541 | $39,550 | $38,514 | $0 | $0 | $35,100 | 0.0% |
| BASIS Tucson North | 108737000 | $46,234 | $46,735 | $43,892 | $43,876 | $44,498 | $39,705 | $39,725 | $40,210 | 16.4% |
| BASIS Phoenix | 078403000 | $47,144 | $47,113 | $44,771 | $44,057 | $44,556 | $40,552 | $39,742 | $40,578 | 16.3% |
| BASIS Ahwatukee | 078212000 | $42,278 | $43,376 | $40,182 | $40,202 | $41,261 | $36,529 | $36,729 | $37,563 | 15.7% |
| BASIS Mesa | 078225000 | $47,347 | $47,367 | $44,903 | $44,624 | $45,251 | $40,817 | $40,554 | $40,932 | 16.0% |
| BASIS Scottsdale Primary East | 078272000 | $41,539 | $41,953 | $39,561 | $39,938 | $39,777 | $36,156 | $36,308 | $36,323 | 14.9% |
| BASIS Chandler Primary South | 078273000 | $41,329 | $41,427 | $39,361 | $39,228 | $39,356 | $35,747 | $35,637 | $35,825 | 15.6% |
| BASIS Goodyear | 078269000 | $42,670 | $43,203 | $40,588 | $40,094 | $41,043 | $37,307 | $36,449 | $37,613 | 14.4% |
| BASIS Goodyear Primary | 078268000 | $43,581 | $43,209 | $40,860 | $40,226 | $41,049 | $37,415 | $36,606 | $37,613 | 16.5% |
| BASIS Phoenix Central | 078231000 | $40,605 | $40,679 | $38,623 | $38,897 | $38,818 | $34,900 | $35,361 | $35,075 | 16.3% |
| BASIS OVP | 108404000 | $41,994 | $43,414 | $38,552 | $39,289 | $41,329 | $35,011 | $35,672 | $37,507 | 19.9% |
| BASIS Prescott | 138786000 | $42,949 | $43,052 | $40,935 | $40,701 | 43052-2137 | $37,071 | $36,434 | $37,106 | 15.9% |
|  |  |  |  |  |  |  |  |  | Median | 15.8% |

Charters are having a difficult time increasing average salaries because many experienced teachers are leaving the profession and new, less costly teachers are replacing them, thereby lowering average salaries 2018 to 2020. The percentage of salary increase in BASIS schools between 2018 and 2020 are some of the largest in Arizona. The median salary increase at BASIS is 15.8% while the state charter median is 13.5% over the time period.

ARS 15-189.05 requires charter schools to report and post the average salary of all teachers. The AFR directions for reporting average teacher salaries stipulates that charters:

*“Enter the average teacher salary of* ***all*** *teachers employed in FYs 2020 and 2019. Each charter should be consistent in the type of salary information included in this table from year to year, as similarly reported in the budget. An optional comment box is available to provide any additional detail regarding the average teacher salary calculation.”*

BASIS doesn’t average all teacher salaries. Instead, the 22 BASIS Schools websites describe how BASIS averages teacher salaries:

*“In compliance with A.R.S. §15-189.05, teacher compensation information for this school is provided. In this context, a “teacher” means a teacher employed in FY18 who returned in FY19, FY20 and FY21, or “returning teacher”. The salary information does not include bonuses or performance pay and is reflective of the average years of teaching experience at the school.”*

BASIS does not average all teacher salaries as ARS 15-189.05 requires. Instead, BASIS only averages salaries of teachers who have been employed three or more years at BASIS and does not include the salaries of newly hired teachers. If only two experienced teachers stayed at a BASIS school and 30 new teachers were hired, BASIS would only average the salaries of the two remaining teachers.

This doesn’t explain why average salaries at BASIS are completely fluid – differing between 2019 AFRs, 2020 AFRs, and school websites. BASIS believes that they can make their own definition of “all teachers employed” to better suit their corporate image, rather than report teacher salary averages the way every other school in Arizona does, in violation of state law.

**3. All BASIS Schools submitted erroneous revenue data for page 7 E.4. “Student Support” and E.5. “All Other Support Services” in the summary data on page 7 Section E of the 2020 AFR, information ADE will utilize for the upcoming 2020 Superintendent’s Report.**

- The AFR directions requires page 7 E.4. “Support Services—Students” to include current expenses coded to function 2100.

BASIS reported over $15 million more in this category than they expended for regular and special education 2100 student support services as indicated on page 2 of the AFRs.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Page 7 E.4. Support Services - Students | Page 2 Regular and Special Education 2100 | Difference |
| BASIS Schools, Flagstaff | 038707000 | $1,339,212 | $299,854 | $1,039,358 |
| BASIS Schools, Peoria | 078588000 | $1,056,785 | $140,540 | $916,245 |
| BASIS Schools, Chandler | 078589000 | $1,650,711 | $433,532 | $1,217,179 |
| BASIS Schools, OV | 078575000 | $871,529 | $235,497 | $636,032 |
| BASIS Schools, Scottsdale | 078736000 | $1,356,293 | $382,990 | $973,303 |
| BASIS Schools, Tucson | 108725000 | $934,153 | $305,996 | $628,157 |
| BASIS Schools, Phoenix South Primary | 078282000 | $494,006 | $145,532 | $348,474 |
| BASIS Schools, Scottsdale Primary West | 78288000 | $503,972 | $129,062 | $374,910 |
| BASIS Schools, Chandler Primary North | 078236000 | $806,721 | $169,004 | $637,717 |
| BASIS Schools, Peoria Primary | 078283000 | $909,424 | $233,630 | $675,794 |
| BASIS Schools, Phoenix Primary | 78418000 | $771,582 | $209,068 | $562,514 |
| BASIS Schools, Tucson North | 108737000 | $1,058,069 | $237,129 | $820,940 |
| BASIS Schools, Phoenix | 078403000 | $994,566 | $257,859 | $736,707 |
| BASIS Schools, Ahwatukee | 078212000 | $999,224 | $168,744 | $830,480 |
| BASIS Schools, Mesa | 078225000 | $1,153,816 | $236,753 | $917,063 |
| BASIS Schools, Scottsdale Primary | 078272000 | $1,077,477 | $402,193 | $675,284 |
| BASIS Schools, Chandler Primary | 078273000 | $729,735 | $307,036 | $422,699 |
| BASIS Schools, Goodyear | 078269000 | $506,895 | $213,176 | $293,719 |
| BASIS Schools, Goodyear Primary | 078268000 | $601,708 | $92,090 | $509,618 |
| BASIS Schools, Phoenix Central | 078231000 | $955,748 | $292,244 | $663,504 |
| BASIS Schools, OVP | 108404000 | $1,073,342 | $268,392 | $804,950 |
| BASIS Schools, Prescott | 138786000 | $945,764 | $199,235 | $746,529 |
|  |  |  |  |  |
| Total |  |  |  | $15,431,176 |

- AFR directions indicate that E.5. “All Other Support Services and Operations” should include object codes 2200 Instructional Support, Transportation, Food Service, and 2600 Operations and Maintenance. BASIS has no transportation or food service expenditures, but the company only included 2600 Operations and Maintenance in E.5. – leaving out 2200 Instructional support. This summary category reported $24 million less than actually expended.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Page 7 E.5. All Other Support Services and Operations | AFR page 2 2600 | AFR page 2 2200 | Total 2600+2200 | Difference from page 7 summary |
| BASIS Schools, Flagstaff | 038707000 | $169,716 | $169,716 | $842,825 | $1,012,541 | -$1,182,257 |
| BASIS Schools, Peoria | 078588000 | $226,692 | $226,692 | $777,742 | $1,004,434 | -$1,231,126 |
| BASIS Schools, Chandler | 078589000 | $208,081 | $208,081 | $901,587 | $1,109,668 | -$1,317,749 |
| BASIS Schools, OV | 078575000 | $206,700 | $206,700 | $506,611 | $713,311 | -$920,011 |
| BASIS Schools, Scottsdale | 078736000 | $271,992 | $271,992 | $923,328 | $1,195,320 | -$1,467,312 |
| BASIS Schools, Tucson | 108725000 | $182,499 | $182,499 | $591,763 | $774,262 | -$956,761 |
| BASIS Schools, Phoenix South Primary | 078282000 | $77,480 | $77,480 | $330,564 | $408,044 | -$485,524 |
| BASIS Schools, Scottsdale Primary West | 78288000 | $417,058 | $417,058 | $353,651 | $770,709 | -$1,187,767 |
| BASIS Schools, Chandler Primary North | 078236000 | $172,232 | $172,232 | $554,318 | $726,550 | -$898,782 |
| BASIS Schools, Peoria Primary | 078283000 | $190,189 | $190,189 | $531,590 | $721,779 | -$911,968 |
| BASIS Schools, Phoenix Primary | 78418000 | $196,852 | $196,852 | $532,821 | $729,673 | -$926,525 |
| BASIS Schools, Tucson North | 108737000 | $202,227 | $202,227 | $795,144 | $997,371 | -$1,199,598 |
| BASIS Schools, Phoenix | 078403000 | $880,841 | $880,841 | $703,319 | $1,584,160 | -$2,465,001 |
| BASIS Schools, Ahwatukee | 078212000 | $204,252 | $204,252 | $682,368 | $886,620 | -$1,090,872 |
| BASIS Schools, Mesa | 078225000 | $271,929 | $271,929 | $754,916 | $1,026,845 | -$1,298,774 |
| BASIS Schools, Scottsdale Primary | 078272000 | $198,109 | $198,109 | $507,760 | $705,869 | -$903,978 |
| BASIS Schools, Chandler Primary | 078273000 | $128,260 | $128,260 | $349,465 | $477,725 | -$605,985 |
| BASIS Schools, Goodyear | 078269000 | $192,986 | $192,986 | $241,018 | $434,004 | -$626,990 |
| BASIS Schools, Goodyear Primary | 078268000 | $218,405 | $218,405 | $446,384 | $664,789 | -$883,194 |
| BASIS Schools, Phoenix Central | 078231000 | $295,847 | $295,847 | $570,967 | $866,814 | -$1,162,661 |
| BASIS Schools, OVP | 108404000 | $196,953 | $196,953 | $695,748 | $892,701 | -$1,089,654 |
| BASIS Schools, Prescott | 138786000 | $292,430 | $292,430 | $636,451 | $928,881 | -$1,221,311 |
|  |  |  |  |  |  |  |
| Total |  |  |  |  |  | -$24,033,800 |

These examples of false reporting of Student Support and Other Support on page 7 of the AFR also occurred in 2019, without consequence. Either BASIS the financial department is unable to read and follow directions or the company is consciously manipulating these numbers to make administrative costs to appear far lower than they actually are.

**Summary:** The directions included in the AFR form are clear – charter holders must report:

* The number of certified teachers
* The average of all teacher salaries 2018-2020
* Expenditures for 2100 Student Support
* Spending for 2200 Instructional Support combined with 2600 Plant Operations.

BASIS reported the above information in ways that benefit their corporate image. BASIS executives do not want the public to know how many teachers are actually certified or what the actual average salary is for BASIS teachers. They want the public to believe that they are spending less than their competitors on administration and far more on student support than they actually spend.

Despite the fact that BASIS is exempt from following the USFRCS, their contracts require that:

*“The Charter Holder shall comply with the same financial and electronic data submission requirements as a school district, including the Uniform System of Financial Records for Charter Schools (USFRCS) … If the Charter Holder has received an exception to the USFRCS and/or procurement rules, the Charter Holder shall, at a minimum, follow accounting policies and procedures that comply with Generally Accepted Accounting Principles (GAAP). This includes using an accounting system that provides for the proper recording and reporting of financial data and following standard internal control procedures*.”

BASIS is in violation of state law and their charter contract for each of its 22 Arizona schools for failing to “comply with the same financial and electronic data submissions as a school district”.

ADE and the Auditor General would not allow a school district to report expenditures in any format that suits them, accurate or not because that would indicate possible fraud. The OAG is aware of these concerns and will do nothing, instead directing us to contact ASBCS. ASBCS received a complaint last year about BASIS miscoding school administrators as Instructional Support. BASIS responded basically saying “that’s the way we do it” and ASBCS closed the complaint. ASBCS has closed dozens of other complaints regarding charter AFR errors and omissions stating that only ADE is responsible for the AFR. ADE Finance has never responded to AFR complaints we have submitted.

This is primarily a BASIS Schools problem this year. Each of the AFR situations addressed in this complaint were compared to submissions made by the largest charter holder, Legacy Traditional Academies. Legacy without exception followed the USFRCS coding and AFR directions in their 2020 AFRs. BASIS simply chooses not to.

ADE and ASBSC needs to require BASIS to follow state rules and laws rather than their own corporate whims if they wish to continue to retain their charters and receive state funds.

**Appendix 2 – ASBCS Email from Jesse Berg**

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| --- | --- | --- |
| |  | | --- | | Jessie Berg <jessie.berg@asbcs.az.gov> | | Mon, Dec 7, 2020, 10:20 AM |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Hi Mr. Hall-  I put the BASIS complaints in a chart so you can easily see their reference numbers below and the forwarded email below is the same email alert that was sent with all of the BASIS complaints. The due date for the response is December 21, 2020.   |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Reference #** | **Charter** | **School** | **Submitted** | **Referred** | | 1144 | BASIS Charter Schools, Inc. | BASIS Oro Valley | 11/24/2020 | 12/7/2020 | | 1145 | BASIS Charter Schools, Inc | BASIS Chandler | 11/24/2020 | 12/7/2020 | | 1146 | BASIS Charter Schools, Inc. | BASIS Mesa | 11/24/2020 | 12/7/2020 | | 1147 | BASIS Charter Schools, Inc. | BASIS Goodyear Primary | 11/24/2020 | 12/7/2020 | | 1148 | BASIS Charter Schools, Inc. | BASIS Phoenix South Primary | 11/24/2020 | 12/7/2020 | | 1149 | BASIS Charter Schools, Inc. | BASIS Phoenix | 11/24/2020 | 12/7/2020 | | 1150 | BASIS Charter Schools, Inc. | BASIS Scottsdale Primary - West Campus | 11/24/2020 | 12/7/2020 | | 1151 | BASIS Charter Schools, Inc. | BASIS Flagstaff | 11/24/2020 | 12/7/2020 | | 1152 | BASIS Charter Schools, Inc. | BASIS Prescott | 11/24/2020 | 12/7/2020 | | 1153 | BASIS Charter Schools, Inc. | BASIS Chandler Primary- North Campus | 11/24/2020 | 12/7/2020 | | 1154 | BASIS Charter Schools, Inc. | BASIS Phoenix Primary | 11/24/2020 | 12/7/2020 | | 1155 | BASIS Charter Schools, Inc. | BASIS Scottsdale | 11/24/2020 | 12/7/2020 | | 1156 | BASIS Charter Schools, Inc. | BASIS Peoria | 11/24/2020 | 12/7/2020 | | 1157 | BASIS Charter Schools, Inc. | BASIS Ahwatukee | 11/24/2020 | 12/7/2020 | | 1158 | BASIS Charter Schools, Inc. | BASIS Oro Valley Primary | 11/24/2020 | 12/7/2020 | | 1159 | BASIS Charter Schools, Inc. | BASIS Peoria Primary | 11/24/2020 | 12/7/2020 | | 1160 | BASIS Charter Schools, Inc | BASIS Phoenix Central | 11/24/2020 | 12/7/2020 | | 1161 | BASIS Charter Schools, Inc. | BASIS Tucson Primary | 11/24/2020 | 12/7/2020 | | 1162 | BASIS Charter Schools, Inc. | BASIS Scottsdale Primary - East Campus | 11/24/2020 | 12/7/2020 | | 1163 | BASIS Charter Schools, Inc. | BASIS Tucson North | 11/24/2020 | 12/7/2020 | | 1164 | BASIS Charter Schools, Inc. | BASIS Goodyear | 11/24/2020 | 12/7/2020 | | 1165 | BASIS Charter Schools, Inc. | BASIS Chandler Primary - South Campus | 11/24/2020 | 12/7/2020 |   Let me know if you have any questions.  Thank you,  Jessie Berg  Charter School Accountability Specialist  ---------- Forwarded message --------- From: **ASBCS System Administrator** <[charterschoolboard@asbcs.az.gov](mailto:charterschoolboard@asbcs.az.gov)> Date: Mon, Dec 7, 2020 at 10:10 AM Subject: Your School has Received a Complaint To: <[crb@craigbarrett123.com](mailto:crb@craigbarrett123.com)>, <[deanna.rowe@basisschools.org](mailto:deanna.rowe@basisschools.org)>, <[shannon.chavez@basised.com](mailto:shannon.chavez@basised.com)>  Dear Charter Representative: The Arizona State Board for Charter Schools received a complaint filed against BASIS Goodyear. The reference number for this complaint is 1164. It is the policy of the ASBCS to request a response to any written complaint which falls under our jurisdiction.  To help our office understand the operations of your school related to the content of this complaint, please provide the following information by December 21, 2020.   - A written response to each concern raised and outlined in the complaint.  This information will be reviewed and when the matter is concluded, a copy of all documentation will be placed in the school's file pursuant to the Board’s retention policy. To view a copy of the complaint, select 'Alerts' under Charter holder on your Dashboard in ASBCS Online.  Please note, the due date in this email alert is the deadline that must be met. The due date in ASBCS Online does not reflect the correct due date and does not take precedence over the deadline indicated above. In accordance with the Arizona State Board for Charter School’s operational performance framework, which uses information from a variety of sources, including complaints, to evaluate a charter holder’s operational performance, failure to provide a response by the deadline identified above, will be noted in Measure 2e of the charter holder’s operational performance dashboard. In accordance with R7-5-501(C), if the specified deadline has not passed, Board staff may grant a charter holder an extension to the specified deadline. To request an extension, please email the Charter Holder’s rationale for the extension to [complaints@asbcs.az.gov](mailto:complaints@asbcs.az.gov). At that time, the request for extension will be considered by the Executive Director for approval or denial.  Should you have any questions, please feel free to contact our office at 602-364-3080.  Sincerely,   Jessie Berg Accountability Specialist |

**Appendix 3 - Email from ADE Lyle Friesen**

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| |  | | --- | | AzCharter School Accountability <arizcsa1000@gmail.com> | | AttachmentsTue, Nov 24, 2020, 1:01 PM |

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| |  |  | | --- | --- | | |  | | --- | | to schoolfinance, Ashley, John | |   All 22 BASIS charter schools have broken their charter contracts and state law by failing to accurately report the average of all teacher salaries 2018, 2019, and 2020 in their 2019 and 2020 Annual Financial Report and postings on their website.  They have also misreported Student Support and Other Support expenditures and the number of certified teachers employed on page 7 of the AFR in both 2019 and 2020 - information ADE uses for the Annual Superintendent’s Report.  We have filed complaints with ASBCS but feel ADE Finance has some responsibility for continuing to accept inaccurate AFR data from charter schools and then publishing it in the Superintendent’s Annual Report.     A detailed complaint is attached listing the specific data submitted in error by all BASIS schools in Arizona. |

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| |  | | --- | | AzCharter School Accountability <arizcsa1000@gmail.com> | | Mon, Nov 30, 2020, 9:55 AM |

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| |  |  | | --- | --- | | |  | | --- | | to Lyle | |   Thank you.  On Mon, Nov 30, 2020 at 8:56 AM Friesen, Lyle <[Lyle.Friesen@azed.gov](mailto:Lyle.Friesen@azed.gov)> wrote:  Good morning Mr. Hall.  We have a meeting scheduled later this week to discuss responsibility’s related to the attached complaint.  Myself or someone else will respond to your complaint after the meeting.  Thank-you  Lyle Friesen Associate Superintendent, ADE, School Finance  **Appendix 4 – BASIS response letter May 2, 2019**  COMPLAINT RESPONSE FOR BASIS MESA Submitted: May 2, 2019  This supplemental response is submitted to the Arizona State Board for Charter Schools (ASBCS) on behalf of BASIS Mesa (the School) in response to a request for supplemental information regarding the March 12, 2019 complaint from Jim Hall (Complainant). Specifically, ASBCS requested information regarding which positions were coded into which Support Services categories.  In FY2017, BASIS Mesa reported all administrative and management personnel using the code for Support Services-School Administration (2400). This included the Head of School, Head of Operations, Auxiliary Programs Coordinator, Facilities Coordinator, Technology Coordinator, Front Office Coordinator, Curriculum Coordinator, Special Education Coordinator, Registrar, College Counselor, Dean, Director of Academic Programs, and Director of Student Affairs. Essentially, this category was used for all non-teaching staff. No staff were reported for this fiscal year using the code for Support Services-Instruction (2200).  In FY2018, BASIS Mesa made a change in its coding for certain positions based on the functions those roles served at the school. Specifically, the Support Services-Instruction (2200) code was used for the Head of School, the Director of Academic Programs, the Director of Student Affairs, the Dean, and the Curriculum Coordinator. The other non-teaching staff identified by role in the preceding paragraph remained coded in Support Services-School Administration (2400), with the exception of the Facilities Coordinator. The Facilities Coordinator was moved to the Operations and Maintenance of Plant code (2600).  No positions were coded using Support Services-General Administration in FY17 or FY18.  Head of School  Head of Operations  Auxiliary Programs Coordinator  Facilities Coordinator  Technology Coordinator  Front Office Coordinator  Curriculum Coordinator  Special Education Coordinator  Registrar  College Counselor  Dean  Director of Academic Programs  Director of Student Affairs.  Head of School  Director of Academic Programs  Director of Student Affairs  Dean  Curriculum Coordinator  **Appendix 5 - Recommended changes to the 2021 AFR submitted to the Auditor General** |

April 20, 2021

OAG: Suggested changes to 2021 Charter Annual Financial Report

Arizonans for Charter School Accountability

Below are three recommendations for changes in the 2021 Charter AFR that will help make charter reporting more accurate and allow reliable comparisons of per pupil expenditures between charter schools. All three recommendations are largely a result of consistent financial misreporting on AFR’s by BASIS Schools and others that makes comparative data in Volume 1 of the Superintendent’s Annual Report useless. The Arizona State Board for Charter Schools and ADE Finance are aware of these concerns but refuse to address them with the second largest charter company in Arizona, with over $130 million in expenditures in 2020.

1. **AFR page 2 Line 14 - 2600 Operation and maintenance of plant**

The information disclosed on Annual Financial Reports is comparable between charter schools and districts in every area except payments made for facilities. Districts finance purchases of land and facilities almost exclusively through bond issues authorized by the local community. District debt service payments on bonded indebtedness is reported in the AFR and is not included as a 2600 plant maintenance expense. Charter schools also use bond funds to purchase facilities and they report debt service expenditures as 5000 Debt Service on page 2 of the AFR and on page 10 as Debt Service and Long and Short-Term Debt.

Unlike districts, however, nearly half of charter holders lease their facilities, either from private owners or from related parties. 197 charter holders out of 411 reported no debt service payments on their 2020 AFR and 159 charter holders reported having no long-term debt at all, implying that they either own their facilities outright or that they are leasing facilities.

Charters report the expenses associated with facilities in vastly different ways. For example, for-profit BASIS ed. Inc. owns all Basis facilities, but divides the debt service payments on their bonds between the schools – reporting the payments as 5000 Debt Service in their AFR’s. GreatHearts Arizona Inc. owns all Great Hearts Academies but leases the facilities back to the individual schools. Great Hearts does not report any debt service expenses on their AFRs - their lease payments are lumped into Purchase Services of 2600 Operation and Maintenance of Plant, a line that also contains the rental of a floor buffer and payments to Roto-Rooter. The Leona and Imagine charters also report facilities leases in this manner.

As a result, 2600 Operation and Maintenance of Plant expenses are significantly higher in charter schools that lease facilities than expenses in districts and charters with bonded indebtedness. There is no way to accurate compare charter expenses for the operation of the plant because half of all charters include lease payments in that line.

Including lease payments in 2600 Plant makes the data reported in the Superintendent’s Annual Report highly inaccurate. For example, all Great Hearts charters lease their facilities from their CMO Great Hearts Arizona and lease payments are included in 2600 Plant Operations. BASIS, on the other hand, reports facilities costs as 5000 debt service. The result is the data in Volume 1 of the SAR is wildly inaccurate because all 2600 expenses are lumped into “Other Support Services”, but Debt Service is not.

For example, BASIS Peoria (78588) and Great Hearts Archway Scottdale have similar ADM, but Archway Scottsdale reports $1.8 million more in “Other Support” because of lease payments included in 2600 Plant Operations invalidating any comparison between the two schools:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 2020 Superintendent's Report | ADM | Classroom Instruction | Classroom Supplies | Administration | Student Support Services | Other Support Services | Total Current Expenditures |
| Great Hearts Archway Scottsdale | 915 | $4,552,014 | $305,566 | $1,465,503 | $282,599 | $2,082,809 | $8,688,491 |
| BASIS Peoria | 931 | $3,570,255 | $33,868 | $990,871 | $1,056,785 | $226,692 | $5,878,471 |

***We suggest that the 2021 AFR add a line on page 2 for 2600 – 6440 Lease/rental of facilities.***

1. **Charters still are not using USFRCS object codes to properly report expenses, notably BASIS Schools miscoding $13 million as 2200 Instructional Support instead of 2400 School Administration.**

**The current AFR directions require charter holders to report expenses based on expense account codes in the USFRCS:**

*All actual revenues, expenses, and account balances presented on the AFR must agree with the Charter's accounting records as of June 30, 2020. Revenue and expense account codes used in the AFR agree with the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) Chart of Accounts. Charters that are exempted from all or part of the USFRCS in accordance with A.R.S. §15-183(E)(6) must use an accounting system that provides for the proper recording and reporting of financial data using USFRCS revenue and expense object codes.*

The USFRCS defines the associated functions in object codes 2100 and 2400:

**2100 Support Services—Instruction**—Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students, including improvement of instruction (curriculum development and staff training for instructional staff), library/media services, instruction-related technology, and academic student assessment. This function also includes curriculum directors, special education directors, or others who supervise staff performing this function.

**2400 Support Services—School Administration**—Activities concerned with overall administrative responsibility for a particular campus, including office of the principal services.

BASIS Schools has reported the expenses of the principal’s office and other school administrative expenses as 2200 Instructional Support for the last two years. Both the Charter Board and ADE Finance have refused to question or correct this practice. As a result, BASIS administrative spending appears to be much lower than it actually is.

The chart below shows all BASIS schools spending over $13 million for Instructional Support. The result of BASIS misreporting makes it appear that they spend $400-$600/pupil less on administration than their largest competitors. All other charters combined spent $24 million for Instructional support in 2020 while BASIS spent $13 million.

|  |  |  |  |
| --- | --- | --- | --- |
| 2020 AFR Page 2 | Legacy Totals | BASIS Totals | Great Hearts Totals |
| ADM | 16,139 | 14,705 | 13,221 |
| 1000 Instruction | $38,783,144 | $52,154,764 | $49,035,054 |
| 2100 Students | $3,219,009 | $5,359,556 | $1,349,223 |
| 2200 Instructional Support | $1,305,728 | **$13,230,340** | $2,311,206 |
| 2300 General Administration | $0 | $4,326,648 | $0 |
| 2400 School Administration | $8,515,781 | $10,738,303 | $10,647,720 |
| 2500 Central Services | $20,731,434 | $3,313,291 | $10,555,600 |
| Total Administration | $29,247,215 | **$18,378,242** | $21,203,320 |
| Total Administration/ADM | $1,812 | **$1,250** | $1,604 |

If revenue and expenses are not consistently reported in the AFR based on USFRCS object codes, comparative data and the Superintendent’s Annual Report become useless.

***We suggest that the OAG specify in the AFR instructions on page 11 that charter holders can only report 2200 Instructional Support using the functions described in USFRCS account codes and must report principal office expenses as 2400 School Administration.***

1. **AFR Page 7 Lines 29-37 - Summary of Current Expenses by Category**

The Summary of Current Expenses by Category on Page 7 Section E often does not correspond to data disclosed on page 2. One reason is that this summary includes federal fund expenditures that are not included on page 2, but many charters with no federal funds still report different totals on Page 7 Section E than on page 2. The Summary of Current Expenses by Category is very often wildly inaccurate when compared to M&O spending on page 2, but ADE Finance directly transfers the page 7 data without validation to the Superintendent’s Annual Report Volume 1.

Again, using BASIS Peoria 2020 AFR data, there is no relationship between page 2 expenditures and most of the summary expenses on page 7:

BASIS Peoria 2020 AFR page 2

|  |  |
| --- | --- |
| 2020 AFR | BASIS Peoria |
| 1000 **Regular** Instruction | $2,530,474 |
| 1000 Supplies | 32,530 |
| 2100 Student Support | $140,540 |
| *2200 Instructional Support* | **$777,742** |
| 2300 General administration | $261,871 |
| 2400 School administration | $508,510 |
| 2500 Central services | $198,494 |
| 1000 **Special Education** Instruction | $35,303 |
| 1000 Supplies | $1,338 |
| 2100 Student Support | $0 |
| *2200 Instructional Support* | $0 |
| 2300 General administration | $20,400 |
| 2400 School administration | $0 |
| 2500 Central services | $0 |

Comparing the totals from page 2 above, the summary data for Classroom Instruction and Support Services – students are $1 million different on page 7:

BASIS Peoria 2020 AFR Page 7 Summary of Current Expenses and actual Page 2 Totals

|  |  |  |
| --- | --- | --- |
| [Current expenses by category](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategory) | Page 7 | Page 2 Totals |
| [1. Classroom instruction excluding classroom supplies](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine1) | **3,570,255** | **$2,531,909** |
| [2. Classroom supplies](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine2) | 33,868 | $33,868 |
| [3. Administration](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine3) | 990,871 | $989,275 |
| [4. Support services—students](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine4) | **1,056,785** | **$140,540** |
| [5. All other support services and operations](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesByCategoryLine5) | 226,692 |  |
| 6. Total (lines 1-5) | 5,878,471 |  |
| [7. Current expenses from federal sources](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesbyCategoryLines7and8) | 78,809 |  |
| [8. Current expenses from State and local sources](applewebdata://7055374E-B7DF-4655-B8D5-E81C174CD5D7#RANGE!CurrentExpensesbyCategoryLines7and8) | 5,799,662 |  |

The totals include $79,000 in IDEA federal funds, but that does not account for how BASIS Peoria can report classroom spending without supplies that varies by $1 million between page 2 and page 7. BASIS apparently included Instructional Support as a Student Support expense on page 7, even though the AFR instructions state that only 2100 Student Support should be reported:

*Support services—students includes current expenses coded to function 2100. Do not include expenses coded to programs 700, 800, and 900.I*

The second largest charter chain in Arizona routinely submits random financial data in their AFR’s that destroys the integrity of all charter financial data collection and makes the Superintendent’s Annual Report worthless. Many other charter holders submit summative data on page 7 that does not match expenditures on page 2.

***We suggest separating M&O expenses and Federal Fund expenses on Page 7 E. and that M&O totals be tied to macros back to page 2. This would provide a more transparent reporting of federal fund expenditures and assure that M&O total on page 7 match those on Page 2.***

***Suggested changes to AFR Page 7 E.***

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | State and Local M&O | Federal Funds |
| E. | Current expenses by category |  |  |
|  | 1. Classroom instruction excluding classroom supplies | Macro linked to page 2 |  |
|  | 2. Classroom supplies | Macro linked to page 2 |  |
|  | 3. Administration | Macro linked to page 2 |  |
|  | 4. Support services—students | Macro linked to page 2 |  |
|  | 5. All other support services and operations | Macro linked to page 2 |  |
|  | 6. Total (lines 1-5) | Sum | Sum |
|  | 7. ~~Current expenses from federal sources~~ |  |  |
|  | 8. Current expenses from ~~State and local sources~~ all sources | Sum |  |

We realize that the Current Expenses by Category is used in the Superintendents Annual Report. It should not be difficult to use a formula combining the M&O and Federal Funds expenditures in each category to keep reporting consistent with past years.

The complete lack of guidance and enforcement by both ASBCS and ADE Finance regarding charter AFR submissions leaves the responsibility for clear guidance and expectations to the OAG to ensure the integrity of Annual Financial Reports.

Thank you for your consideration,

Jim Hall

Arizonans for Charter School Accountability