The April 2020 Arizona Department of Education special audit found that the Department needs 21 staff for Program workload, should improve customer service and timely processing of Program applications, and better protect personally identifiable information. We made 26 recommendations to the Department, and its status in implementing the recommendations is as follows:

Status of 26 recommendations

Implemented	13
Implemented in a different manner	3
Partially implemented	1
In process	6
No longer applicable	1
Not implemented	**2**

We will conduct a 48-month followup with the Department on the status of the recommendations that have not yet been implemented.

Chapter 1: Program Workload Analysis—Department could timely complete key Program tasks and perform other responsibilities in fiscal year 2021 with 21 FTE staff positions

1. The Department should allocate 21 FTE positions to the Program in fiscal year 2021, including a Program director, an auditor, an administrative assistant, 3 managers, and 15 positions assigned to performing key tasks.

   Implemented in a different manner at 6 months—Effective December 2020, the Department had allocated 23 FTE positions to the Program to complete its fiscal year 2021 Program workload. The 23 FTE positions included a Program director, an administrative assistant, 2 managers, 2 supervisors, and 17 positions assigned to perform key tasks.

2. The Department should identify and assign other Program tasks for Program staff to perform during periods of decreased workload, including but not limited to processing unreviewed expense reports for prior years, referring cases of misspent Program monies to the Arizona Attorney General's Office for collections as long as this remains a Department responsibility, conducting State-wide seminars and trainings for Program applicants, performing marketing and community outreach activities relating to the Program, and providing Program staff professional development.

   Implemented at 18 months

3. The Department should develop a process, including written policies and procedures as appropriate, to help ensure the Department addresses its fluctuating workload by monitoring and planning for workload fluctuations, assigning key tasks to be completed by Program staff based on actual and/or projected workload for those key tasks, and providing training to Program staff so they have the skills to complete all key tasks.

   Implemented at 36 months

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4. The Department should monitor and track changes that could impact the Program, such as the Legislature's appropriation of FTE for specific Program responsibilities, Program enrollment growth, and the transition to ClassWallet, and assess their impact on its workload and needed staffing level. If the Department determines that additional staff are needed, it should request an appropriation from the Legislature, including providing supporting documentation for the requested staffing level.

    Implementation in process—The Department has monitored and tracked changes affecting the Program, such as its transition to ClassWallet, legislative changes, and increased Program enrollment, and has assessed their impact on its workload and needed staffing level. As of February 2023, the Department determined it needs 52 FTE staff positions to handle its Program workload, consistent with the Legislature's fiscal year 2023 appropriation of 52 FTE positions to the Department. As of September 6, 2023, the Department reported that it had filled 40.4 of these FTE staff positions. Additionally, continued growth in the number of children enrolled in the Program may result in changes to its workload and needed staffing. Specifically, according to the Department and its website, the number of children enrolled in the Program has increased from 11,992 as of July 2022 to 65,533 as of September 5, 2023. Therefore, we will continue to assess the Department's efforts to monitor and track Program changes, assess the impact of these changes on its workload and staffing level, and determine if additional staff are needed and whether it should request additional appropriations from the Legislature.

Chapter 2: Revenues and expenditures—Department spent Program administration and other Department monies on Program-related costs; Treasurer's Office reporting spending Program administration monies on Program-related costs

This chapter did not include any recommendations.

Chapter 3: Customer Service—Program customer service was professional and courteous but untimely, and some customers received poor-quality information

5. The Department should develop and implement customer service performance management policies and procedures, including policies and procedures for the Program call center Laws 2020, Ch. 12, §4, requires it to establish. These policies and procedures should include:

    a. Customer service performance benchmarks for email/voicemail inquiries and phone calls.

        Implementation in process—Although the Department had implemented this recommendation at 18 months, the Department has since implemented a new call system and has begun making changes to its processes for tracking and monitoring customer service performance, including its customer service performance benchmarks. For example, as of May 2023, the Department had established the following customer service performance benchmarks for its Program call center employees: (1) handle a minimum of 40 calls per day, (2) process 25 emails per day, and (3) achieve 90 percent quality assurance scores. The Department reported that it has begun assessing its Program call center employees against these benchmarks and plans to develop additional customer service performance benchmarks and expectations for Program staff. We will assess the Department's continued implementation of its processes for tracking and monitoring customer service performance during our 48-month followup.

    b. Performance expectations for Program staff related to the performance benchmarks.

        Implementation in process—See explanation for 5a.

    c. Requirements for obtaining customer service information and audio recordings for all Program staff who provide customer service.

        Implemented in a different manner at 18 months—The Department requires customer service information and audio recordings to be collected for most Program staff who provide customer service. Specifically,

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the Department has developed and implemented policies and procedures for obtaining customer service information from its customer service ticketing system, which it uses for responding to customer service inquiries. Additionally, the Department's policies require audio recording and tracking of call information for Program staff assigned to answer phone calls on the Program's main line. However, some Program staff provide phone customer service outside the Program's main phone line, such as Program staff who review and approve Program expenses. The Department reported that it does not see a benefit in tracking phone calls for Program staff who are not assigned to answer phone calls on the main line because they provide phone customer service occasionally.

d. Requirements for Program managers to regularly review call-routing system reports, customer-service ticketing system information, and audio recordings to evaluate Program staff's customer service performance.

Implementation in process—The Department has developed a policy that requires Program managers to review call routing system reports and customer service ticket metrics monthly to determine if its customer service benchmarks are being met, but it reported putting these monthly reviews on hold because of its transition to a new phone system and because it plans to develop a new ticketing system with revised ticketing metrics. Additionally, the Department reported that its call center manager began evaluating call center employee telephone calls in April 2023 using newly developed performance evaluation criteria. These criteria include whether the staff person was friendly and informative, whether the caller was left on hold for more than 2 minutes, and whether the call was appropriately escalated to a supervisor, if needed. Although the Department provided a summary document listing the average evaluation scores for the calls it evaluated during April 2023, this document did not include a comparison of staff performance with the performance evaluation criteria. We will further assess the Department's implementation of this recommendation during our 48-month followup.

e. Customer service quality criteria to guide staff performance and help ensure managers consistently evaluate the quality of Program staff's customer service phone calls.

Implementation in process—See explanation for Recommendation 5d.

f. Requirements for reviewing customer service performance metrics at least monthly to identify opportunities for improvement.

Implementation in process—As explained in Recommendation 5a, the Department has begun making changes to its processes for tracking and monitoring customer service performance, including establishing some customer service performance benchmarks, and beginning to assess its Program call center employees against these benchmarks. Additionally, the Department reported that it plans to include requirements for reviewing its customer service performance benchmarks at least monthly in its policies and procedures.

6. The Department should develop and implement policies and procedures to help ensure its customer service information and audio recordings are complete, including:

a. Configuring its call-routing system reports to include all Program customer service phone calls.

Implemented in a different manner at 18 months—The Department has developed and implemented procedures to configure its call-routing reports to include all Program customer service phone calls that it receives on the Program's main phone line (See explanation for Recommendation 5c for Department requirements related to obtaining customer service information). According to the Department's customer service reports, from July through September 2021, the Department received nearly 9,000 phone calls on the Program's main phone line.

b. Creating phone call audio recordings of all Program customer service phone calls.

Implemented at 36 months

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    c.   Requiring Program staff to use its customer-service-ticketing system to send email responses for all email/voicemail customer service inquiries and holding staff accountable for doing so.

       Implemented at 18 months

Chapter 4: Program Deadlines—Department's delayed application decisions impacted some parents'/guardians' receipt of and ability to use Program monies for education expenses and to make important educational decisions

7.   The Department should ensure that Program staff notify parents/guardians of Program application decisions within the 45-day statutory time frame.

    Implemented at 36 months—Arizona Revised Statute (A.R.S.) §15-2403(H) now requires the Department to issue an award letter to eligible applicants within 30 days of receiving a completed application with all required documentation. The Department provides quarterly reports to the Arizona State Board of Education that include information on processing completed applications within the statutorily required 30 days. For example, according to its July 2022 Empowerment Scholarship Account Quarterly Report to the Arizona State Board of Education, the Department processed 100 percent of completed applications received within 30 days during the April 1, 2022 through June 30, 2022, time period. Additionally, based on our review of a sample of 30 completed applications received in fiscal year 2022, the Department notified parents/guardians of Program application decisions for all 30 applications within the statutorily required 30 days.

8.   The Department should develop written policies and/or procedures for Program staff to uniformly and consistently document application-decision-notification dates in its Program IT system and to help ensure Program staff consistently do so.

    Implemented at 36 months

9.   The Department should complete development of and implement a process to automate the submission of quarterly expense reports for parents/guardians who have made no purchases with Program monies within the previous quarter.

    No longer applicable—The Board established rules stating that a parent is not required to submit quarterly expense reports if no expenses were made in the quarter. As a result, this recommendation is no longer applicable.

Chapter 5: 2016 Audit Followup[1]

10. While it continues to use its debit card process for distributing Program award monies, the Department should:

    a.   More consistently implement its policies and procedures for monitoring misspending and attempted misspending.

       Implemented at 6 months

    b.   Modify its risk-based approach for reviewing parent/guardian expense reports to include the additional risk factors it has identified.

       Not implemented—In our 18-month follow-up report, we indicated that the Department had not implemented this recommendation. Specifically, the Department reported it had transitioned all Program

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[1]   Chapter 5 of our April 2020 audit report assessed the implementation status of the recommendations directed to the Department from our June 2016 performance audit of the Program (Report 2016-107). Recommendations 10 through 13 supersede the recommendations from our 2016 performance audit that were not fully implemented as of our final followup. As a result, the reported recommendation statuses and explanations relate to Recommendations 10 through 13 from the April 2020 audit report.

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accounts to ClassWallet as of July 2021 and that parents/guardians could use multiple payment options through ClassWallet, including debit cards, to pay for educational expenses. The Department's IT system allowed Program staff to assign different risk levels to accounts based on identified risk factors, such as disallowed ClassWallet transactions. However, at that time, Program staff did not use the risk factors to prioritize spending reviews.

The Department has yet to use risk factors to prioritize its review of transactions. Additionally, although the Department reported it reviews all Program purchases, it has a backlog of more than 366,000 purchases/transactions awaiting review. Specifically, 4 options for making Program purchases are available through ClassWallet—marketplace orders, direct pay to approved vendors, reimbursements, and the use of debit cards. The Department reported that it established a goal to review marketplace orders and vendor direct pay purchases/transactions within 48 to 72 hours, but as of September 7, 2023, had a backlog of more than 366,000 Program purchases/transactions that it is working to review, most of which were debit card and reimbursement purchases/transactions. According to an April 2023 addendum to the ClassWallet contract, ClassWallet staff are assisting with the review of transactions. The Department reported that, after receiving training, ClassWallet staff began reviewing debit card transactions in early June 2023. Finally, according to a February 8, 2023, email to Program account holders, the Department indicated it would no longer be issuing debit cards, citing that this is the least desired option for making Program purchases because there appeared to be many problems with past purchases and that 3 other options for making Program purchases are available through ClassWallet— marketplace orders, direct pay to approved vendors, and reimbursements. As of June 29, 2023, the Department reported that it had issued approximately 17,000 debit cards, about 16,000 of which are actively used, and that if these cards are in good standing, account holders can continue to use them. Additionally, the Department reported that during an August 10, 2023, Empowerment Scholarship Account Parent Advisory Committee meeting, it indicated that it would start working with ClassWallet to establish the necessary debit card transaction review systems that would allow it to provide debit cards to families that would like one.

The Department further reported that it plans to begin auditing Program accounts and transactions in September 2023 using various risk factors it has developed to guide its risk-based selection of ClassWallet transactions and Program purchases for audit. These risk factors include expense amount, vendor used, and purchases made by users who previously made unallowable purchases. Additionally, the Department indicated that it hopes any new contract with an Empowerment Scholarship Account financial solutions vendor will provide functionality within the solution to identify accounts and/or transactions for review based on their level of risk (see below paragraph for more information).

Using risk factors to guide its review of accounts and transactions should help the Department continue to identify instances of misspending to forward to the Arizona State Board of Education (Board) for its review and possible referral to the Attorney General's Office. A.R.S. §15-2403(F) authorizes the Board to refer misspending cases to the Attorney General's Office for collections or criminal investigation. Additionally, as indicated in our initial follow-up report, the Board adopted rules outlining procedures the Department must follow when forwarding misspending cases to the Board for possible referral to the Attorney General's Office. During fiscal year 2023, the Department reported that it referred 20 misspending cases to the Board totaling $9,808. According to the Department, misspending violations involved failures to amend rejected expense reports and provide required invoices, and students who were enrolled in a public school while also receiving Program monies.

Finally, in March 2023, the Arizona State Treasurer's Office issued a Request for Proposals (RFP) to identify alternative financial solutions for the Program. According to the RFP, the solution should allow for the review and authorization of purchases before they are completed. Additional requested features include the ability to restrict purchases; an automated prior-authorization process for allowable purchases; an electronic marketplace for purchases or reimbursements of purchases; the ability to suspend activity and return funds to the State; the ability to suspend, deactivate, or reactivate client and vendor accounts; and the potential use of debit cards. The RFP further specifies transaction-processing requirements and various reporting requirements.

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The RFP also specified various requirements for safeguarding sensitive and personally identifiable information that if followed, should help protect against unauthorized or inappropriate access to Program participants' information, such as the inappropriate access to personally identifiable information in ClassWallet. Specifically, it requires the contractor to establish and maintain procedures and controls acceptable to the State for the purpose of assuring that information or data in its possession, including the State's proprietary and sensitive data and data obtained from others in the performance of its contractual duties, is protected from unauthorized access and is not mishandled, misused, released, disclosed, or used in an inappropriate manner. The contractor is also required to comply with the State's information technology security policies, standards, and procedures, and all applicable State and federal laws and regulations, including the Health Insurance Portability and Accountability Act (HIPAA) and the Family Education Rights Privacy Act (FERPA). The contractor must further agree to protect any personally identifiable information belonging to State employees or other contractors or members of the general public that it receives from the State or otherwise acquires in its performance under the contract. Finally, the contractor must provide its most current report by its independent auditors of its internal controls, and this report must cover the services specified in the RFP. According to the Department, these information technology security requirements will be incorporated into the contract.

The Arizona State Treasurer's Office awarded the contract to ClassWallet on August 1, 2023.

c. Prioritize spending reviews to focus on the highest-risk Program accounts.

Not implemented—See explanation for recommendation 10b above.

11. The Department should work with the Board to provide assistance for processing and forwarding misspending cases to the Attorney General's Office for collections or criminal investigations.

Implemented at 18 months—The Department has developed and implemented policies and procedures for referring misspending cases to the Board for its review and possible referral to the Attorney General's Office. The policies and procedures require Department staff to provide various notifications about the misspending to the account holder, provide the account holder an opportunity for repayment, suspend and/or close the account pending repayment or if repayment is not made, and if repayment does not occur, prepare and send a report of the misspending with required information, such as the amount of misspending and reason for referral, to the Board. Our review of 4 monthly reports the Department sent to the Board in calendar year 2021 found that these reports included the required information.

12. The Department should work with its Assistant Attorney General to review all the public records requests it has fulfilled, at a minimum during calendar year 2019, to determine if additional disclosures of sensitive information and/ or personally identifiable information (PII) have occurred, and if so, to notify affected parties and take any other steps as required by applicable State and federal laws.

Partially implemented at 18 months—As reported in the initial followup, the Department had developed a plan to review the 157 public records requests that it fulfilled in calendar year 2019, including the responses to those requests, to determine if additional disclosures of sensitive information and/or PII occurred. However, the Department reported that it modified the approach outlined in its plan. Specifically, it reported that it reviewed the initial request and requestor information for the public records requests fulfilled in calendar year 2019 and identified only 19 public records requests for which it would review the response to the request to determine whether PII or other sensitive information was disclosed. The Department reported that it determined that no sensitive information and/or PII was disclosed in the 19 responses it reviewed. However, our 2020 audit had previously identified that 1 of the 19 responses that the Department reviewed included improperly redacted PII, such as student and parent/guardian names, email addresses, and mailing addresses. After we informed the Department that this response included improperly redacted PII, it reported that it worked with the Attorney General's Office and determined that a notification to the affected party was not necessary. The Department reported that it considers its review of the 2019 public records requests complete.

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13. The Department should continue to develop and implement policies and procedures for protecting sensitive and personally identifiable information when fulfilling public records requests, including procedures for:

    a. Redacting information from documents containing large amounts of data.

        Implemented at 18 months—The Department has developed and implemented data request and redaction policies and procedures designed to help ensure that information provided in response to public information requests does not contain sensitive information and/or PII. These policies and procedures require Department staff to complete the required redaction procedures before providing any Department documents to outside entities, regardless of the amount of data contained in the documents. Additionally, our review of a random sample of 30 public records requests that the Department received between March and September 2021 found that the Department followed its procedures for redacting data containing PII and/or sensitive information when fulfilling this sample of requests.[2]

    b. Ensuring that information provided in response to public information requests does not contain sensitive and/or personally identifiable information.

        Implemented at 18 months—See explanation for Recommendation 13a.

    c. Removing and/or excluding any unredacted files or, if included in the response to the public records request, appropriately redacting any sensitive and/or personally identifiable information.

        Implemented at 36 months

    d. Tracking public records requests to help ensure they are appropriately addressed.

        Implemented at 6 months

    e. Conducting a secondary review prior to finalizing and responding to a public records request, including outlining the purpose and requirements of doing so.

        Implemented at 6 months

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[2] We selected a random sample of 50 of 294 requests for information that the Department responded to between March and September 2021. However, the Department reported that it did not consider 20 of the 50 items to be public record requests. These items included individuals requesting their own personal information, such as their general education diploma and government agencies requesting statutorily authorized records and/or information. Therefore, we reviewed the remaining items, a total of 30 public records requests, to assess the Department's implementation of its data request and redaction policies and procedures.

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