



ARIZONA DEPARTMENT OF EDUCATION

November 8, 2024

VIA EMAIL

Representative Matthew Gress, Joint Legislative Audit Committee Chair
MGress@azleg.gov

Dear Chairman Gress and Members of the Committee,

This letter is in response to the *48-month Follow-Up Report of the Empowerment Scholarship Account Program* issued by the Auditor General on November 1, 2024.

We reviewed the report and have some concerns. The Empowerment Scholarship Account (ESA) Program elicits a very high level of public scrutiny. For this reason, it is important that we address some of the report's statements that unintentionally could lead the public to believe that the Arizona Department of Education has not remedied key program vulnerabilities that previously existed.

Also, we would like to reiterate the level to which the ESA program is a highly accountable program that is focused on ensuring over 82,000 students have greater educational options.

ADE implemented key internal controls over ESA program functions and processes to reduce the risk of fraud activity stemming from indictments of former employees and made the Auditor General's Office aware of this

The Auditor General's Office stated in its report that ADE failed to respond to multiple requests to provide documentation to conduct audit work pertaining to "controls to prevent/detect fraud in response to a State Grand Jury indicting several individuals, including former Program employees, for allegedly engaging in fraud, money laundering, and other crimes related to the Program."

The facts are a little different. On July 25, 2024, ADE and ESA leadership met with a team from the Auditor General's Office in which we explained what controls we have put in place to address the controls issue cited in the Auditor General's report. Then, on September 9, 2024, ESA staff again met with Auditor General staff. During that meeting, ESA staff presented evidence to the auditors showing the controls that had been put in place.

To provide context, in October 2023, I became aware of internal control weaknesses that unfortunately allowed ESA employees, without supervisory approval, to assign themselves any program applications and purchases submitted to ADE for review. This internal control weakness could allow employees to commit errors or fraud without detection by a supervisor. In fact, the 3 former ADE employees who have been indicted for fraud in the ESA program allegedly committed their crimes because of these internal control weaknesses.

When I recognized these internal control weaknesses, I directed program and IT staff to work together to implement separation of duties within the enrollment function. I also directed program staff to work with the ESA program's financial platform vendor to implement separation of duties within the purchase review process. As a result, ESA staff are no longer able to assign any unreviewed student applications or purchases to themselves without supervisory review. Only supervisors have system permissions to assign applications or purchases to program staff. **This cured the weaknesses connected with the fraud that allegedly previously occurred beginning in fiscal year 2022.**

At the September 9, 2024, meeting we showed the auditors evidence of the system permission restrictions that we have implemented over the assignment of purchases.

There was no security breach of ADE or ClassWallet data in the summer of 2023 as indicated in the Auditor General's report.

The Auditor General's Office raised a question about ADE's response to requests for documentation regarding the summer 2023 data incident.

On July 31, 2023, the Arizona Department of Homeland Security issued a public "Cyber Incident Executive Summary" and a confidential incident report. The Auditor General's Office requested a copy of the confidential report from ADE in August 2023 and ADE directed the Auditor General to request the report directly from Homeland Security, under the Auditor General's statutory authority to do so (A.R.S. [41-1279.04](#)).

Nothing in the Homeland Security reports concluded that a "breach" occurred. In fact, the reports indicate that an ADE employee's account was implicated in the matter. Because no security threat from outside ADE and ClassWallet breached our systems, breach is a mischaracterization. When information is improperly released because of actions of an employee from inside an agency, that is a different matter that speaks to internal control.

In July 2023, after learning of the data leak incident, as the Department's internal auditor at the time (with more than sixteen years' experience in the State Auditor General's Office), I immediately asked ClassWallet to provide me a list of all system permissions that ESA employees had within the ClassWallet platform. Upon review of those system permissions, I directed ClassWallet to restrict permissions. The restrictions eliminated the ability for ESA employees to grant system permissions to an

ESA Holder, which was what occurred in the incident covered by the July 31, 2024, Arizona Homeland Security reports. ClassWallet understood ADE's request for these system permission restrictions to be implemented and did so in collaboration with ADE. **As a result, system controls are now in place to deal with any risk of an employee doing this again.**

ADE staff showed auditors at the September 9, 2024 meeting the system permission restrictions that had been put in place to remedy this control weakness.

ESA program doing its best to manage limited resources while always making ESA students and families first priority

There were two audit teams simultaneously auditing the ESA program. At one point, there were 30 different requests for information or documentation from the ESA program. I must emphasize a point made in the Auditor General's 2020 ESA audit. At that time, the pre-universal program had about 7,600 students, and the auditors were recommending at least 21 staff to operate the program. Today we have over 82,000 students. Our program is 11 times larger now post universal expansion, and we are able to staff at about 40 employees, based on our budget. The expansion of our staff resources does not come close to matching the significant growth of the program since 2020. For that reason, ESA operates within considerable resource constraints. Having multiple teams auditing the ESA program at this time further strains those limited resources. As I indicated on two separate occasions to the auditors, the ESA program is first and foremost focused on ensuring that we process applications, disburse scholarship monies, review purchases, and provide customer service to the parents of the 82,000 ESA students.

We are demonstrating the highest levels of public accountability and are happy to fulfill that responsibility. The ESA program may be the most accountable program in the State. The ESA program is responsible for demonstrating accountability through reporting that is required by statute, rules, and *ad hoc* requests from these 7 government agencies and bodies:

- Governor's Office
- Legislative Leadership
- Joint Legislative Budget Committee
- Attorney General's Office (multiple units)
- Auditor General's Office (multiple divisions)
- State Board of Education
- State Ombudsman

Additionally, this program is held highly accountable by other important groups:

ESA stakeholders	Public interest and media groups
Parents of 82,400 ESA students	News media
Parent Advisory Committee	ESA opposition groups
ESA-related social media	Statewide opposition research groups

We will continue to respond to requirements for accountability, including the ones that the Auditor General makes, but it must be understood that we have to simultaneously service nearly 83,000 accounts with a staff whose budget has not increased to match the growth in the number of families in the program.

Respectfully,

John Ward

Executive Director
Empowerment Scholarship Account Program
Arizona Department of Education