Arizona Department of Education - Resolution for ESEA Title I School Improvement Earmarking Audit Finding (2014-112)
November 2017

Recap of Finding: ADE received an FY14 Audit finding regarding earmarking for school improvement activities via the School Improvement Fund Set-Aside. Auditors identified 23 LEAs with calculation errors, for a total questioned value of $435,831. It was understood that this issue would have ramifications due to the "roll forward" to future year calculation files.

Overview of the process undertaken to address and resolve the finding: ADE has been committed to ensuring proper resolution of this finding and ensuring future errors do not occur. Accordingly, ADE engaged Education Finance specialists, Afton Partners. Afton reviewed the entire FY14 (SY13-14) process and documented preliminary solutions to address allocation issues, and calculated revised, appropriate FY14 allocations. The updated methodology was rolled forward through FY15 (SY14-15)-FY17 (SY16-17) for comprehensive correction to allocations. Calculation methodologies were reviewed and vetted by US Department of Education Office of State Support; adjustments were made to ensure appropriate methodology and compliance based on USED feedback. Once this was completed, ADE had a full understanding of the misallocation for each LEA, as well as the magnitude of incorrect earmarking for the School Improvement Fund. As an outcome of this work, the ADE has updated its processes to ensure the calculation errors do not occur again. A corrected calculation methodology is in place for FY18 (SY17-18) and beyond, which has been reviewed by the US Department of Education Office of State Support.

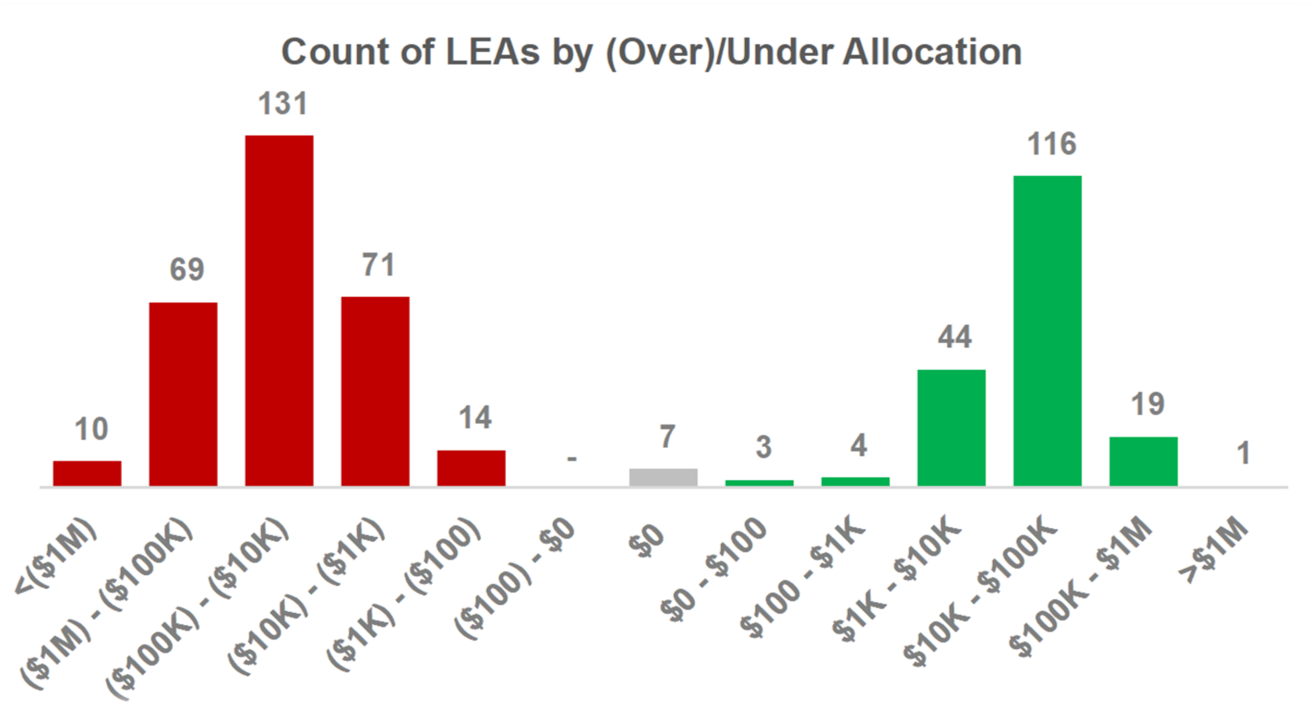
Plan to correct for historical errors: After this thorough process, ADE has determined that 187 LEAs were underfunded between FY14 (SY13-14)-FY17 (SY16-17) a total of $9.657M. ADE proposes to use unobligated Title I funds currently available or that become available in the future to true up those LEAs that were historically underfunded. We anticipate enough funding would be forfeited over the next 2-5 years to complete this true up process. ADE is not proposing to retrieve funding from nor reduce future funding for LEAs that were historically overfunded, as we do not believe it is appropriate to reduce current and future students' funding for historical errors.

Additional notable process issues: During the review process, additional issues were identified with the calculation files and the overall allocation process beyond those identified in the audit finding. Notable issues included:

- School Improvement Fund set-aside was limited to 4% above prior year allocation at any given LEA, as opposed to ensuring 4% of total SEA funding was set aside (which inherently requires some LEAs to contribute more than 4% to compensate for those that are unable to due to limited increases or decreases vs prior year).
- There was an inconsistent application of hold harmless, with hold harmless being applied incorrectly or not at all in some years.
- An incorrect order of operations was used, which led to incorrect hold harmless amounts and set aside amounts.
- There was a lack of adjustments to existing LEAs for the addition of new LEAs (not included in current or next year as a prior year adjustment).

Financial impact: The cumulative FY14-FY17 allocation errors are as follows:

- The School Improvement Fund was underfunded by $24.5M.
- All LEAs were impacted to some extent. More LEAs received too much funding than not enough funding, and in net total, LEAs were allocated approximately $31.8M too much across FY14-FY17. However, some LEAs included in one or more years' files are no longer in existence as of FY17. Excluding these LEAs (who were, in net, underfunded by $2.2M), the total net error is an over-allocation of $34.0M. This equates to just under 3% of total Title 1 funding allocated to LEAs for FY14-FY17.
- Of all LEAs impacted, 10 LEAs were over-funded more than $1M, and 1 LEA was underfunded more than $1M.
- A summary of the cumulative impact of over and underfunded LEAs is shown below:



Resolution and Improvement efforts: To resolve this finding and ensure these issues do not recur, ADE has implemented the following:

- ***A corrected template will be used for future years***. The goal in creating this template was to make the process as efficient, effective, and error-proof as possible. This template has been reviewed and vetted by the US Department of Education Office of State Support. It will only need to be updated for any allocation policy updates post-FY18 for future year use.
- ***A new Standard Operating Procedure***. The template is accompanied by a detailed Standard Operating Procedure, which thoroughly explains how to complete allocation procedures.
- ***A recorded webinar on proper calculation methodology***. Along with an updated template and SOP, a webinar is being recorded to further explain and ensure proper methodology will be utilized going forward.
- ***Training and professional development***. Title I leadership has been provided technical assistance and training regarding the allocations process and the application of the updated

methodology and procedures. An all-staff training was held October 3, 2017 to inform ADE staff of the issues identified and the updated methodology to be applied in future years. Additionally, the field of LEA Title I administrators will be informed of the errors, the review process, and improvements in place to prevent errors in the future at the statewide MEGA Conference for Title I Administrators on Wednesday, November 15, 2017. Breakout sessions will be provided for attendees to discuss these issues in detail, in addition to the plenary session overview.

FY18 allocations have been rolled out utilizing the correct allocation process. LEAs may have experienced a year-over-year reduction of 15% or more from FY17 to FY18 due to changes in LEA census enrollment and poverty counts, required changes per the transition to ESSA, and the application of the corrected allocation process. To ensure the least disruption to LEAs with the transition to FY18, ADE limited any year-over-year reduction to LEAs from FY17 to FY18 to a maximum reduction of 15% through providing impacted LEAs additional funding from unobligated Title I funding (to include returned or forfeited funds).

Documentation attached: The following documents can be used to support the findings and procedure changes summarized above:

File Description	File Name	Purpose
FY14, FY15, FY16, and FY17 revised allocation calculation files	FYXX Revised Title I Allocations Calculations_FINAL for USED.xlsx	Updated annual LEA allocation calculations. These are the allocations LEAs *should* have received in each fiscal year.
"Revised calculations" vs. "grant allocations" variance file	Title I Variance Analysis_Revised Calc vs. Grant Allocation_FINAL for USED.xlsx	This file summarizes the allocations for FY14-FY17 vs. the amounts actually provided to LEAs via the grants system. This file contains the allocation errors by each LEA.
FY18 Allocations file including Standard Operating Procedure (SOP)	FY18 Title I Part A Allocations Calculations_FINAL for USED.xlsx	FY18 allocation calculation file. This file will be used as the baseline for future versions of FY18 allocations and is the start-point for future years' allocation calculations files. The SOP is available at the front of this file.
All-staff training materials	100317 AZ_DoE _All-staff Meeting_FINAL for USED.pdf	As referenced above, this presentation was shared with all ADE Title 1 staff on October 3, 2017.