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Average Daily Membership Audit Report
Page Unified School District No. 8
Fiscal Years 2004, 2005, and 2006

Report Number 08-05

Submitted March 7, 2008

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March 7, 2008

Governing Board
Page Unified School District No. 8
500 South Navajo Drive
Page, AZ 86040

Dear Members of the Board and Superintendent:

The Arizona Department of Education Audit Unit has conducted a limited scope Average Daily Membership audit of the Page Unified School District No. 8, for Fiscal Years 2004, 2005, and 2006. The purpose of the audit was to determine whether the District should have received state aid for students participating in school programs after having graduated or having met graduation requirements.

The audit found that the District should not have received state aid for these students because they had already met graduation requirements.

The audit becomes final 30 days after issuance, unless the District files an appeal. Appendix A in the report provides rules governing the appeals process.

We appreciate the excellent cooperation and assistance provided by the Superintendent and staff during the course of the audit. My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Arthur E. Heikkila
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) has conducted a limited scope Average Daily Membership (ADM) audit of the Page Unified School District No. 8, pursuant to the provisions of Arizona Revised Statutes (A.R.S). §§15-915, 15-239, and Session Laws 2006, Chapter 353, H.B. 2874, Section 23, for Fiscal Year 2007, and Session Laws 2007, Chapter 264, H.B. 2790, Section 17, for Fiscal Year 2008. This audit focused on whether it was appropriate for the District to receive state aid for students who had either enrolled in the Youth Transition Program (YTP) or who were enrolled beyond the usual four years of high school.

Attendance audits help ensure the appropriate distribution of state aid to schools. Since ADE distributes nearly $5 billion annually in public school funding to schools based on attendance and other factors, it is important that schools accurately report their student count to ADE.[1] However, if a school's student count is inaccurate, that school could then receive an incorrect amount of monies from ADE. Attendance audits determine if schools are receiving the correct amount of state aid based on their reported attendance.[2] If the audit determines that an incorrect amount of state aid was distributed to a district based on incorrect attendance information, ADE will make the correction by adjusting a future payment or payments to the school.

The Page Unified School District No. 8 is located in Coconino County. A five-member school board governs the school district, which is managed by a superintendent. In FY2005-2006, the District had approximately 3,000 students enrolled in its schools, offering education for students in kindergarten through high school. Table 1 presents the District's financial, student and staffing information for FY2004, FY2005, and FY2006.

Table 1

Page Unified School District No. 8
Students, Staffing, Revenue and Expenditures
FY2004, FY2005, and FY2006
(Unaudited)

	FY2004	FY2005	FY2006
Students Enrolled	**3,017**	**2,901**	**2,971**
Staff			
Certified	207	220	224
Classified	196	180	201
Total Staff	**403**	**400**	**425**
Revenue			
Local	$ 8,279,669	$10,044,081	$ 7,920,148
State	7,763,479	9,173,638	9,943,103
County	823,286	640,143	907,320
Federal	12,769,243	12,006,852	10,892,291
Total Revenues	**$29,635,677**	**$31,864,714**	**$29,662,862**
Total Expenditures	**$30,162,311**	**$30,374,207**	**$35,401,188**

Source: "Annual Report of the Arizona Superintendent of Public Instruction," for FY2004, FY2005, and FY2006.

1 School districts are funded based on "student count", which is defined in A.R.S. §15-901(A)(14) as Average Daily Membership for the fiscal year prior to the current year.

2 Arizona's schools receive monies from the state based on student attendance and other factors. Schools are required every 20 days to submit daily attendance information to ADE for each student enrolled. Attendance information is used by ADE to calculate Average Daily Membership (ADM). ADE then calculates a school's basic state aid payment based on ADM and other factors and distributes these monies to schools 10 times annually.

SCOPE AND METHODOLOGY

The audit reviewed whether the District should have received state aid for students who had completed at least four years of high school education or had already met the District's graduation requirements.

Staff from ADE's Audit Unit and Exceptional Student Services Unit (ESS) performed the audit. Audit Unit staff performed the Average Daily Membership component of the audit and ESS staff reviewed the special education aspect of the audit.[3] Auditors first identified students who had completed at least four years of high school or had already met the District's graduation requirements. Additionally, District administrators and staff were interviewed and auditors reviewed District student information for 94 students, including student files, attendance records, enrollment and withdrawal forms, and transcripts.

- To determine whether the students who had completed at least four years of high school education and had already met the District's graduation requirements were eligible to receive state monies, auditors used several methods. First auditors reviewed attendance information from ADE's Student Accountability Information System (SAIS) to identify the number of students enrolled beyond the usual four years of high school or those meeting graduation requirements. Additionally, auditors reviewed pertinent statutes and ADE guidelines regarding attendance and graduation, and obtained District graduation guidelines and graduation lists to determine whether these students had met graduation requirements. Finally, auditors consulted with staff form the Arizona Attorney General's Office to obtain legal input regarding statutory graduation and state aid funding requirements.

- To determine whether the District should have received funding for special education students who had completed at least four years of high school education or had already met graduation requirements, ESS staff reviewed Individualized Education Plans (IEPs) for the 54 students who met this criteria for the fiscal years audited. This review determined the types of services provided, the amount of time specified for the services, and whether the IEPs were in compliance with federal and state requirements.

- To determine whether the District was appropriately receiving state aid for other non-special education students who had completed at least four years of high school education or had already met graduation requirements, auditors reviewed transcripts, attendance records, cumulative files, and graduation lists for all 40 students enrolled in high school for more than four years during the fiscal years audited.

The Audit Unit expresses its appreciation to the Page Unified School District Superintendent and staff members as well as the Exceptional Student Services Unit from the Arizona Department of Education for their cooperation and assistance throughout the audit.

[3] A.R.S. §15-901 defines ADM as "the total enrollment of fractional students and full time students, minus withdrawals, of each school day through the first one hundred days or two hundreds days in session as applicable." ADE uses that information to determine the basic state aid payment to school districts.

FINDING 1: THE DISTRICT SHOULD NOT HAVE RECEIVED STATE AID FOR STUDENTS WHO ALREADY GRADUATED

The District should not have received state aid for its students enrolled in the YTP Program who had already graduated and thus were not eligible for state aid. Statutes clearly state that students who already graduated are not eligible for state aid. The District, however, inappropriately submitted attendance information for these students and received state aid. As a result, the District overstated its ADM for students in the YTP Program by 79.76 for FY2004, FY2005, and FY2006, and received excessive state aid of $469,724.64. In addition, the District should not have delayed graduating these students who already met graduation requirements.

The Arizona Department of Economic Security's Developmental Disabilities Division offers a federally-funded program to school districts that is commonly called the Youth Transition Program (YTP). The Page Unified School District participates in this Program, receiving federal monies requiring a partial match of District funds. According to District officials, the Program is intended to help students with mild disabilities successfully transition to meaningful, gainful, and sustained employment and other post high school activities. District officials also stated that the Program is offered to both students who had already completed the District's high school graduation requirements (called post high school students) as well as students who had not completed these requirements. Our review found a total of 54 students enrolled in the Program from FY2004 and FY2006. All students enrolled were post high school students, i.e., graduated from high school.

All Students in the YTP Program Were Ineligible for State Aid

The audit found that all 54 students in the Program were statutorily ineligible for state aid and that the District should not have received state aid for them. As shown in Table 2, (see page 4) all of the Students enrolled in the Program did not meet statutory requirements to receive public school funding.[4]

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[4] Public school funding is primarily calculated based on the number of students physically attending the school ("ADM"). A.R.S. §15-901 et seq. A district's apportionment of state funds is based, in part, on the average daily attendance of its enrolled students. Id. Arizona law defines a "full-time student" as, a student not graduated from the highest grade taught in the school district, or an ungraded student at least fourteen years of age by September 1, and enrolled in at least a full-time instructional program of subjects that count toward graduation as defined by the state board of education in a recognized high school. A.R.S. §15-901(A)(2)(b)(iii). (Emphasis added). Arizona law defines a "full-time instructional program" as, an instructional program that meets at least a total of seven hundred twenty hours during the minimum number of days required and includes at least four subjects each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty-three hours a year, or the equivalent, or one or more subjects taught in amounts of time totaling at least twenty hours per week prorated for any week with fewer than five school days. A.R.S. §15-901(A)(2)(c)(vi). Arizona law defines "daily attendance" as, actually and physically in attendance and enrolled in and carrying four subjects, each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty hours a year, or the equivalent that count toward graduation in a recognized high school....Attendance of a pupil carrying less than the load prescribed shall be prorated. A.R.S. §15-901(A)(6)(d). See Long v. Dick, 87 Ariz. 25, 347 P.2d 581 (1959) (holding that high school pupils are in "daily attendance" when they are enrolled and are carrying four subjects and when they are also actually present) (Emphasis added).

Table 2

Statutory Requirement for State Aid
As Compared to District's Practices

Statutory Requirements	Did the District's YTP Program Practice Meet Statutory Requirements?
Students had not graduated from the highest grade in the District	**No.** All of the students in the District's YTP Program already met the District's graduation requirements.
Students were enrolled in at least a full-time instructional program of subjects that count towards graduation.	**No.** None of the students in the District's YTP Program were enrolled in such a program.
Students were enrolled in a full-time instructional program of at least 720 hours per year.	**No.** None of the students in the District's YTP Program were enrolled in such a program.
Students were actually and physically in attendance and carrying four subjects that count towards graduation.	**No.** The students in the District's YTP Program were not in attendance and were not carrying four subjects that counted towards graduation.

Source: Auditor analysis of requirements from A.R.S. §15-901(A)(2)(b)(iii) as compared to the District's YTP student records..

Specifically:

- A review of all 54 student files found that each contained a transcript that indicated the student had graduated and provided a graduation date. Further, in 23 cases, the District also sent a letter to parents stating that the student had graduated and would no longer be eligible for services.

- A review of special education files found that 11 of the 54 students were residing out of town and were engaged in a variety of activities, such as being enrolled at Northern Arizona University, enrolled in a beauty college in Yuma, and providing daycare for relatives in Tuba City. Other students were enrolled in the Art Institute of Phoenix, as well as others enrolled at Scottsdale Community College. Additionally, 4 students were residing in Page and enrolled at Yavapai Community College and Coconino Community College.

- According to District officials, the students remaining in town either had jobs locally or were receiving job placement, coaching and assistance from District employees. However, none of the transcipts for these students indicated specific assigned classes that were courses that counted towards graduation.

Because all 54 students in the Program already graduated, the District should neither have requested nor received state aid for these students. The School reported attendance information to ADE for all of the 54 students. Based on the reported information, ADE provided state aid to the School. However, because the students were ineligible for state aid, this resulted in a 79.76 ADM overstatement by the District, as shown in Table 3, for FY2004, FY2005, and FY2006. The ADM overstatement resulted in a $469,724.64 overpayment to the District over the three fiscal years audited as shown in Table 5 (see page 7). ADE needs to recover this overpayment.

Table 3

Page Unified School District No. 8
YTP Students Who Met Graduation Requirements, Other Students in High School Beyond 4 Years, and the Overstated ADM for FY2004, FY2005, and FY2006

	FY2004		FY2005		FY2006		Total
	Number of Students	ADM Overstate-ment	Number of Students	ADM Overstate-ment	Number of Students	ADM Overstate-ment	ADM Overstatement
YTP Students Who Met Graduation Requirements Before Enrollment in the YTP Program	25	22.43	35	30.020	29	26.9	79.35
Other Students[1]	19	0	15	.405	13	0	.405
Total	44	22.43	50	30.425	42	26.9	79.76

[1] Auditors also identified one of the 40 non-YTP students who the District reported as .81 ADM but should have been reported as .405 ADM because this student was only a half-time student.

Source: Auditor analysis of students the District reported in the YTP Program and the SAIS ADMS75 report.

The District Should Not Have Delayed Students' Graduation

In addition, the District should not have delayed graduation for the 54 students enrolled in the YTP Program. According to Attorney General Opinion I98-095, districts do not have the statutory authority to do so. Instead of delaying students' graduation, the District should ensure that it properly exits all students that have either graduated or have met graduation requirements.

Program Expenditures Were Significant

In contrast to the other districts that this Unit recently audited, this District's YTP Program expenditures were significant for all three fiscal years audited. Similar to this District, the other districts audited also operated YTP Programs which included students who were ineligible for state aid because they had already graduated or met graduation requirements. However, this District's YTP Program had both higher expenditures and used more staff to operate as compared to the other districts' YTP Programs. According to District officials, the Program's expenditures covered a range of staff and activities, including transportation services for students to and from their job sites, job coaching services, and print shop services. For example, for FY2005, in addition to a Program supervisor and five staff, the Program employed a job coach teacher along with three job coaches, a print shop supervisor and one print shop staff.

In addition, this District's YTP Program expenditures were higher than its revenues for all three fiscal years audited. According to District officials, Program expenditures exceeded Program revenues by $51,856.27 in FY2004, $25,147.60 in FY2005, and $86,275.06 in FY2006. To fund the Program, the

District used monies from multiple sources, including Maintenance and Operations (M & O) funds, and DES funds. To obtain these matching funds from DES, the District paid DES $49,000, and received $151,000 for each fiscal year. Additionally, as shown in Table 4, the District's expenditures from Maintenance and Operations Fund monies were $116,637.93 in FY2004, $151,477.47 in FY2005, and $217,887.75 in FY2006.

Table 4

Page Unified School District No. 8
YTP Revenues and Expenditures for
FY2004, FY2005, and FY2006
(Unaudited)

	FY2004	FY2005	FY2006	Total
Revenues				
State Aid Received	$113,782.08	$172,995.98	$180,612.69	$467,390.75
DES Fund[a,b]	151,000.00	151,000.00	151,000.00	453,000.00
Total Revenues	**$264,782.08**	**$323,995.98**	**$331,612.69**	**$920,390.75**
Expenditures				
M & O[a]	$ 116,637.93	$ 151,477.47	$ 217,887.75	$486,003.15
District Match from M & O[c]	49,000.00	49,000.00	49,000.00	147,000.00
DES Fund[a,b]	151,000.00	151,000.00	151,000.00	453,000.00
Total Expenditures	**$316,637.93**	**$351,477.47**	**$417,887.75**	**$1,086,003.15**
Difference	**($51,855.85)**	**($27,481.49)**	**($86,275.06)**	**($165,612.40)**

a District provided budgeted and expenditure information.

b DES stands for the Arizona Department of Economic Security.

c In order to receive matching funds from DES, the District had to expend monies. These monies came from the District's Maintenance and Operation (M & O) funds.

Source: Auditor analysis of District attendance and financial records.

Similar to the Program's expenditures being higher than its revenues, this District's Program spent a significant amount of monies per student, even though all of the YTP students were ineligible for state monies. Specifically, the average cost per student for the District's YTP Program was $12,665.52 for FY2004, $10,042.21 for FY2005, and $14,409.92 for FY2006. However, none of the 54 students in the Program during these three fiscal years were eligible for state monies. In the future, the District should ensure that it expends state monies only on students who are eligible for these funds.

Recommendations

1. The Arizona Department of Education should recover $469,724.64 in state aid that the District should not have received for students who were statutorily ineligible for funding for FY2004, FY2005, and FY2006.
2. The District should properly exit all students that have either graduated or met graduation requirements.
3. In the future, the District should ensure that it expends state monies only on students who are eligible for these funds.

ADM FUNDING ADJUSTMENTS

The audit identified an overall funding adjustment of $469,724.64 that the District will have to remit to ADE. Statutes allow repayment in 12 months or 24 months for hardship situations with the approval of the State Superintendent of Public Instruction. Statutes and rules also provide for a formal appeal process through the Office of Administrative Hearings if the district disagrees with the audit results. The District has 30 days from the issuance of the audit to request an appeal. Attached as Appendix A (see page a-i), are the rules that govern the appeals process.

Table 5 lists the overstated ADM and associated funding adjustments for the District for FY2004, FY2005 and FY2006.

Table 5

Page Unified School District No. 8
Overstated ADM and Funding Adjustments Required for
FY2004, FY2005, and FY2006

	FY2004		FY2005		FY2006		Total	
Program	**ADM**	**Amount**	**ADM**	**Amount**	**ADM**	**Amount**	**ADM**	**Amount**
YTP	22.43	$113,782.08	30.020	$172,995.98	26.9	$180,612.69	79.350	$467,390.75
Other	0.00	$ 0.00	0.405	$ 2,333.89	0.0	$ 0.00	0.405	$ 2,333.89
Total	22.43	$113,782.08	30.425	$175,329.87	26.9	$180,612.69	79.760	$469,724.64

Source: Auditor analysis of SAIS and District student and financial data for FY2004, FY2005, and FY2006.

APPENDIX A

State Rules for Appealing Audits

The audit determination pursuant to A.R.S. §15-915 is an agency action to which you can file an appeal. The audit report and letter along with this information serve as notice of your appeal rights under A. R.S. §41-1092.04. Your right to a hearing and right to an informal settlement conference are described below in detail per Arizona Revised Statutes.

§41-1092.03. Notice of appealable agency action; hearing; informal settlement conference; applicability

A. An agency shall serve notice of an appealable agency action pursuant to section 41-1092.04. The notice shall identify the statute or rule that is alleged to have been violated or on which the action is based and shall include a description of the party's right to request a hearing on an appealable agency action and to request an informal settlement conference pursuant to section 41-1092.06.

B. A party may obtain a hearing on an appealable agency action by filing a notice of appeal with the agency within thirty days after receiving the notice prescribed in subsection A of this section. The notice may be filed by a party whose legal rights, duties or privileges were determined by the appealable agency action. A notice of appeal also may be filed by a party who will be adversely affected by the appealable agency action and who exercised any right to comment on the action provided by law or rule, provided that the grounds for appeal are limited to issues raised in that party's comments. The notice of appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. The agency shall notify the office of the appeal and the office shall schedule a hearing pursuant to section 41-1092.05, except as provided in section 41-1092.01, and subsection F.

C. If good cause is shown an agency head may accept an appeal that is not filed in a timely manner.

§41-1092.06. Appeals of agency actions; informal settlement conferences; applicability

A. If requested by the appellant of an appealable agency action, the agency shall hold an informal settlement conference within fifteen days after receiving the request. A request for an informal settlement conference shall be in writing and shall be filed with the agency no later than twenty days before the hearing. If an informal settlement conference is requested, the agency shall notify the office of the request and the outcome of the conference, except as provided in section 41-1092.01, subsection F. The request for an informal settlement conference does not toll the sixty day period in which the administrative hearing is to be held pursuant to section 41-1092.05.

B. If an informal settlement conference is held, a person with the authority to act on behalf of the agency must represent the agency at the conference. The agency representative shall notify the appellant in writing that statements, either written or oral, made by the appellant at the conference, including a written document, created or expressed solely for the purpose of settlement negotiations are inadmissible in any subsequent administrative hearing. The parties participating in the settlement conference shall waive their right to object to the participation of the agency representative in the final administrative decision.