



Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-2097

Average Daily Membership Audit Report Show Low Unified School District Fiscal Years 2004, 2005, and 2006

Report Number 08-04

Submitted December 21, 2007

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ARIZONA DEPARTMENT OF EDUCATION

The Audit Unit

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December 21, 2007

Governing Board
Show Low Unified School District
1350 N Central Avenue
Show Low, Arizona 85901

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 Show Low Unified School District, 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 many of these students, either because they had already met graduation requirements, or were not offered sufficient services to warrant state aid.

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,

A handwritten signature in black ink, appearing to read "Art Heikkila".

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 Show Low Unified School District, 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 monies 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 to 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. 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 Show Low Unified School District is located in Show Low in Navajo County, Arizona. In FY2006, the District had approximately 2,600 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

**Show Low Unified School District
Students, Staffing, Revenues and Expenditures
FY2004, FY2005, and FY2006
(Unaudited)**

	FY2004	FY2005	FY2006
Students Enrolled	2,625	2,582	2,618
Staff			
Certified	152	155	166
Classified	103	106	109
Total Staff	255	261	275
Revenue			
Local	\$ 6,848,063	\$ 6,847,943	\$ 6,456,445
State	8,203,590	9,115,703	9,269,128
County	240,452	235,866	246,493
Federal	2,544,161	2,157,626	2,308,056
Total Revenues	\$17,836,266	\$18,357,138	\$18,280,122
Total Expenditures	\$16,766,079	\$19,256,587	\$17,390,508

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(14) as Average Daily Membership for the fiscal year prior to the current year.

The Show Low District offered a program called Youth Transition Program (YTP), intended to help students with disabilities find and maintain work in the community. Program oversight and administrative costs were funded with a federal grant from the Arizona Department of Economic Security, and required partial matching of district local funds. The funding provided for a YTP program coordinator and an assistant.

The District submitted attendance information for these students to ADE, and subsequently received state aid based on that information.² Table 2 shows the number of students enrolled in the YTP Program for FY2004, FY2005, and FY2006, along with the number of other students enrolled beyond the fourth year of high school.

Table 2

**Show Low Unified School District
YTP Students and Others Enrolled Beyond the
4th Year of High School
FY2004, FY2005, and FY2006**

Students	FY2004	FY2005	FY2006	Total
YTP	19	28	24	71
Others ^a	<u>7</u>	<u>7</u>	<u>2</u>	<u>16</u>
Total	<u>26</u>	<u>35</u>	<u>26</u>	<u>87</u>

^a Other students enrolled beyond the fourth year of high school.

Source: Auditor analysis of student information obtained from the SAIS ADMS75 report for FY2004, FY2005, and FY2006.

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 some students who were either enrolled beyond the usual four years of high school or those that participated in its Youth Transition Program.

Staff from ADE's Audit Unit and Exceptional Student Services Unit (ESS) performed the audit. Audit Unit staff performed the Average Daily Membership (ADM) component of the audit, while ESS staff reviewed the special education aspect of the audit.³ To gain an understanding of the YTP Program, District administrators and staff were interviewed and District guidelines for the Program were reviewed. Moreover, auditors reviewed District student information for 87 students including student files, attendance records, enrollment and withdrawal forms, and transcripts.

- To determine whether the District's YTP Program was 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 in the YTP Program. Additionally, auditors reviewed pertinent statutes and ADE guidelines regarding attendance and graduation and obtained District graduation guidelines and graduation lists to determine whether students in the Program had met graduation requirements. Finally, auditors consulted with staff from 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 have enrolled in the YTP Program, ESS staff reviewed Individualized Education Plans (IEPs) for 71 students enrolled in the Program 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 appropriately written based on federal and state requirements.
- To determine whether the District was appropriately receiving state aid for other students, the audit team reviewed transcripts, attendance records, cumulative files and graduation lists for all 16 students enrolled in high school for more than four years during the fiscal years audited.

The Audit Unit expresses its appreciation to the Show Low 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 100 days or 200 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 MOST STUDENTS IN THE YOUTH TRANSITION PROGRAM

The District should not have received state aid for most students in its YTP Program. As a result, for FY2004, FY2005, and FY2006, the District overstated its ADM by 55.99 or \$356,631.72. The District should not have received this state aid because the majority of the students enrolled in this Program had either met graduation requirements and therefore were not statutorily eligible for state aid, or were not provided with sufficient instructional hours as required by statute. In addition, the audit identified a significant difference between the amount of revenue received by the District for the YTP Program verses actual expenditures.

The District Should Not Have Received State Monies for Most YTP Students

The District should not have received state monies for most students enrolled in the YTP Program. According to a review of the YTP students' Individualized Education Plans (IEPs) and student files, 59 of the 71 students in this Program had either graduated or did not receive a sufficient amount of services, thus rendering them ineligible for the District to request and receive state monies. Specifically, A.R.S. §15-901 includes the following requirements districts must ensure that students meet in order to be eligible for public school funding: 1) not graduated from the highest grade taught in the school district; 2) enrolled in at least a full-time instructional program of subjects that count towards graduation; 3) enrolled in a full-time instructional program of at least 720 hours each year; and 4) actually and physically in attendance and carrying four subjects that count towards graduation.⁴

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).

Although these students were ineligible for state funding, the District reported them in their attendance data and received funding for them. Specifically, for FY2004, FY2005, and FY2006, the District reported a total of 55.99 overstated ADM from this Program to ADE. This translates into \$356,631.72 in monies that ADE should recover from the District.

District Should Not Have Delayed Some Students' Graduation

In addition to receiving monies for some students that were not statutorily eligible for funding, the District should not have delayed graduation for 57 students enrolled in the YTP Program. According to Attorney General Opinion I98-095, the District did 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.

The District Should Not Have Received Funding for Students Not Provided Enough Instructional Hours

The audit also found that the District received state aid for two students who were not provided a sufficient amount of services in order to qualify for funding. According to A.R.S. §15-901, which provides funding guidelines for full and part-time students, high school students must be provided with at least five hours of instruction each week to receive the minimum .25 ADM funding. However, a review of some students' IEPs and special education files identified two students who did not receive a sufficient amount of services. Specifically, one student was designated to receive only 20 minutes of instruction each week and the other received only 30 minutes per quarter. ADE should recover the monies that were inappropriately distributed to the District for students who did not receive sufficient instructional hours. In the future, the District should ensure that sufficient instructional hours are provided to all students that receive state aid.

Table 3 (see page 6) lists the number of students meeting graduation requirements, not being provided with a sufficient amount of services and students who were receiving the necessary hours of services, along with the associated ADM overstatement for each fiscal year.

Table 3

**Show Low Unified School District
YTP Students Meeting Graduation Requirements,
YTP Students Receiving an Appropriate Amount Of Services, and
Students Receiving an Insufficient Amount of Services
With the Overstated ADM for FY2004, FY2005, and FY2006**

	FY2004	FY2005	FY2006	Total
Met Graduation Requirements Before Enrollment in the YTP	15	22	20	57
Receiving Appropriate Services	3	5	4	12
Insufficient Amount of Services	<u>1</u>	<u>1</u>	<u>0</u>	<u>2</u>
Total YTP Students	<u>19</u>	<u>28</u>	<u>24</u>	<u>71</u>
ADM Overstatement	15.79	22.27	17.93	55.99

Source: Auditor analysis of District student and attendance records and the SAIS ADMS75 Report.

**Program Revenues
Exceeded Expenditures**

The District retained significant net revenue from the YTP Program for the three fiscal years audited. The District obtained revenue for the Program from two sources, state aid based on ADM and a federal grant. Total Program expenditures consisted of required matching funds to receive the federal grant and the actual Program expenditures. As shown in Table 4, revenues significantly exceeded expenditures for each of the three fiscal years audited. As a result, this allowed the District to retain a considerable balance of funds in all three years.

Table 4

**Show Low Unified School District
YTP Revenues and Expenditures for FY2004, FY2005, and FY2006
(Unaudited)**

	FY2004	FY2005	FY2006
Revenues			
State Aid Received ^a	\$155,396.97	\$112,289.11	\$ 88,945.64
Federal Grant Match ^b	<u>\$ 80,278.22</u>	<u>\$ 82,718.11</u>	<u>\$ 80,737.87</u>
Subtotal	<u>\$235,675.19</u>	<u>\$195,007.22</u>	<u>\$169,683.51</u>
Expenditures			
District Grant Match ^b	\$ 14,549.00	\$ 16,626.00	\$ 19,215.00
Program Expenditures	\$ 80,278.22	\$101,176.92	\$ 82,941.25
Subtotal	<u>\$ 94,827.22</u>	<u>\$117,802.92</u>	<u>\$102,156.25</u>
Balance Retained	<u>\$140,847.97</u>	<u>\$ 77,204.30</u>	<u>\$ 67,527.26</u>

^a Does not include state aid received for the students eligible for FY2004, FY2005, and FY2006.

^b District-provided budget and expenditure information.

Source: Auditor analysis of District attendance and financial records.

Recommendations

1. ADE should recover \$356,631.72 in state aid that the District should not have received for the fiscal years audited.
2. The District should ensure that it exits all students that have already graduated.
3. The District should ensure that sufficient instructional hours are provided to all students who receive state aid.

FINDING 2: THE DISTRICT SHOULD NOT HAVE RECEIVED FUNDING FOR SOME OTHER STUDENTS

In addition to the YTP Program students for which the District inappropriately received funding, the audit identified two other students for which the District inappropriately received \$12,728.30 in state aid. As a result, for FY2004, FY2005, and FY2006, the District overstated its ADM by 1.70. The District should not have received state aid for these students because they had already graduated. Specifically, a review of student information such as student records, transcripts, and graduation reports, revealed that these students had already received their diplomas. Since these students were statutorily ineligible for the District to receive funding, ADE should recover these monies from the District. Finally, the District should ensure that students who have graduated are not included in its student count reported to ADE for funding.

Table 5 shows the number of other students meeting graduation requirements and students found eligible, along with the associated ADM overstatement for each fiscal year.

Table 5

**Show Low Unified School District
Other Students' Eligibility and ADM Overstatement
FY2004, FY2005, and FY2006**

Fiscal Year Findings	FY2004	FY2005	FY2006	Total
Graduated-Not Eligible	1	0	1	2
Eligible	<u>6</u>	<u>7</u>	<u>1</u>	<u>14</u>
Total Other Students	<u>7</u>	<u>7</u>	<u>2</u>	<u>16</u>
ADM Overstatement	0.88	0	0.82	1.70

Source: Auditor analysis of District student records and the SAIS ADMS75 Report.

Recommendations

1. The Arizona Department of Education should recover \$12,728.30 in state aid that the District should not have received for FY2004, FY2005, and FY2006 for other students who were statutorily ineligible for state aid because they had already graduated.
2. The District should ensure that students who have already graduated are not included in its student count reported to ADE for funding.

ADM FUNDING ADJUSTMENTS

The audit identified an overall funding adjustment of \$369,360.02 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 appeals 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 report to request an appeal. Attached as Appendix A, (see page a-i) are the rules that govern the appeals process.

Table 6 lists the overstated ADM and funding adjustments for the District for FY2004, FY2005, and FY2006.

Table 6

**Show Low Unified School District
Overstated ADM and Funding Adjustments Required for
FY2004, FY2005, and FY2006**

Program	FY2004		FY2005		FY2006		Total	
	Overstated ADM	Amount	Overstated ADM	Amount	Overstated ADM	Amount	Overstated ADM	Amount
YTP	15.79	\$155,396.97	22.27	\$112,289.11	17.93	\$88,945.64	55.99	\$356,631.72
Other	0.88	\$ 8,660.51	--.---	\$ --.--	0.82	\$ 4,067.79	1.70	\$ 12,728.30
Total	16.67	\$164,057.48	22.27	\$112,289.11	18.75	\$93,013.43	57.69	\$369,360.02

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 §41-1092.04. Your right to a hearing and right to an informal settlement conference are described below in detail per Arizona Revised Statutes.

A.R.S. §41-1092.03. Notice of appeal able agency action; hearing; informal settlement conference; applicability

- A. An agency shall serve notice of an appeal able 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 appeal able agency action and to request an informal settlement conference pursuant to section 41-1092.06.
- B. A party may obtain a hearing on an appeal able 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 appeal able agency action. A notice of appeal also may be filed by a party who will be adversely affected by the appeal able 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.

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

- A. If requested by the appellant of an appeal able 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.