

**REPORT HIGHLIGHTS**  
PERFORMANCE AUDIT

**Subject**

The Arizona Department of Education (ADE) administers and allocates nearly \$5 billion in state and federal monies to Local Education Agencies (LEAs), which are primarily school districts and charter schools. ADE distributes most of these monies based on LEA-reported attendance data, which is weighted for students' grade level, school size and location, and specific needs such as special education.

**Our Conclusion**

ADE should implement a comprehensive system to ensure the accuracy of LEAs' attendance data. The amount of state aid LEAs receive is directly tied to this data, so data accuracy is critical. ADE's approach for obtaining and administering federal grants is generally appropriate.



2006

## ADE Should Implement Comprehensive System to Ensure Accuracy of LEAs' Attendance Data State-wide

With billions of dollars involved, ADE needs to ensure that funding for school districts and charter schools is calculated accurately. Funding for LEAs is largely based on attendance, and even a small error in state-wide attendance data can have a multi-million-dollar impact. For example, a 1 percent attendance data error would equal about a \$50 million error in Maintenance & Operation expenditures.<sup>1</sup>

- A 2004 special study by our Office found that two Joint Technological Education Districts had overstated their attendance and were overpaid \$2.3 million.
- ADE's audit unit finds errors. Since 2002, ADE identified approximately \$1.75 million in overpayments in 13 of its 26 audits.

**Attendance data**—paper or electronic attendance records at an LEA.

### Limited reviews of attendance data identify inaccuracies

Although ADE lacks a comprehensive process for verifying that LEAs' attendance data is accurate, limited reviews have indicated that there are inaccuracies in the data. However, these reviews are limited by both their purpose and the small sample size of attendance data tested. None of these reviews were intended to assess the accuracy of the LEAs' attendance data state-wide. Specifically:

- Independent accounting firms frequently find problems. These firms conduct limited reviews of the controls over the attendance data as part of their financial audits of the school districts. In fiscal year 2004, 149 of the 158 districts audited, or 94 percent, had at least one attendance-related problem.

### ADE should take additional action to ensure accuracy of LEAs' attendance data

Regardless of the comprehensive system ADE chooses to implement, if it identifies inaccuracies in the data, ADE should then make the appropriate adjustments to the LEAs' funding.

### CPA firms could assess attendance data accuracy

—By statute, the reviews CPA firms conduct focus on whether the LEAs are complying with statutes and the *Uniform System of Financial Records for School Districts and Charter Schools*. However, the reviews do not assess the accuracy of the attendance data or calculate any over- or underpayments.

ADE could seek statutory changes to require the CPA firms to perform more extensive reviews of the data and calculate over- or underpayments. ADE could then work with our Office to define

<sup>1</sup> Maintenance & Operation expenditures are LEAs' day-to-day expenditures, including employee salaries and benefits, supplies, utilities, and maintenance.

the specific requirements. Depending on the extent of the data reviewed, over- or underpayment amounts could be calculated for the LEAs' total attendance data or just for the data sampled by the firms.

**ADE's audit unit could ensure attendance data accuracy**—Another option ADE could consider is expanding the size and coverage of its Audit Resolution Unit (ARU).

ARU rather than the CPA firms could assume the primary role of auditing all LEAs' attendance data, similar to the Texas Education Agency, which uses its own audit unit to perform audits of schools' attendance data. However, relying on ARU to audit all LEAs may not be feasible due to the sheer number of audits to be performed. According to ARU's director, as of March 2006, the unit had 2 audit staff to perform attendance data audits. However, to audit all of the 244 school districts and 368 charter holders in Arizona, ARU would need to be significantly expanded.<sup>1</sup> ADE received funding for 4 additional audit staff as part of its fiscal year 2007 budget and has 4 other staff who can perform attendance

data audits along with other responsibilities. However, ARU still believes that 12 additional audit staff are required to provide state-wide audit coverage, auditing each district and charter holder once every 4 years.

Further, if ARU were to calculate an LEA's total over- or underpayment, it would need to review much larger samples of attendance data than it currently uses as part of its audits, which would also require more resources.

**Coordinate efforts of CPA firms and ARU**—Another option would be for the CPA firms to audit the accuracy of the attendance data and have ARU perform additional work as warranted. For example, if the CPA firms were conducting audits using smaller samples or performing the audits on a rotational basis, ARU could conduct more extensive and more frequent audits of the LEAs found by the CPA firms to have the most inaccurate attendance data.

## Recommendations

ADE should:

- Implement a comprehensive system to ensure the accuracy of LEAs' attendance data state-wide. ADE then should consider:
  - Seeking statutory revisions to require that CPA firms, as part of their financial audits of LEAs, determine the accuracy of attendance data and then work with our Office to define the specific requirements, and/or
  - Expanding the number of attendance data audits that ARU conducts; and
- Once it has implemented a comprehensive system to ensure the accuracy of LEAs' attendance data, ADE should make state aid payment adjustments based on the results.

<sup>1</sup> The term charter holder refers to the administrative entity serving one or more charter schools and is similar to a school district.

# ADE's Approach to Identifying and Administering Federal Grant Monies Generally Appropriate

Arizona received and administered nearly \$800 million in federal grant monies in fiscal year 2005. Almost all of the monies came from the U.S. Departments of Education and Agriculture. ADE receives formula and discretionary grants, which are both federal grants.

**Formula grants**—In fiscal year 2005, ADE received over \$791 million from 36 different formula grants. Our audit work found that ADE is receiving all of the formula grants it is eligible for.

**Discretionary grants**—ADE received 16 discretionary grants in fiscal year 2005, totaling just over \$4 million. We found that ADE has an effective process for identifying discretionary grants and determining which grants to apply for.

However, it can improve its process by obtaining and using information about past applications—especially why applications were denied—to help it with future applications.

**Ensuring grants are used**—ADE also effectively ensures that LEAs use all of the grant monies distributed to them. ADE's grant management system identifies which LEAs have not used grant money or are not using it quickly enough to avoid having it lapse. ADE alerts LEAs by phone and e-mail regarding the need to use the grant monies. Because of ADE's efforts, less than 1 percent of federal grants have remained unspent between 2002 and

## Federal Grant Types:

**Formula**—Also known as entitlement grants, these grants are awarded to states or other entities based on certain factors, such as the number of children in poverty.

**Discretionary**—These grants are awarded to states or other entities on a competitive basis based on information submitted in an application to the granting agency; for example, the U.S. Department of Education.

## Recommendation

ADE should:

- Maintain more information on its past discretionary grant applications to assist it in future applications.

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**Department of Education**  
Administration and Allocation of Funds

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