



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

August 4, 2006

Ms. Debra K. Davenport, CPA
Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85010

Dear Ms. Davenport:

The Arizona Department of Education is providing the enclosed response to the Auditor General's performance audit for the following area:

- Administration and Allocation of Funds

We appreciate your work on this performance audit, your consideration of our previous comments and suggestions and your acknowledgement of the quality and variety of work already provided by the Arizona Department of Education.

Please feel free to call me at (602) 364-2339 if any additional information is needed.

Sincerely,

Margaret Garcia Dugan
Deputy Superintendent

Enclosure



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ADE GENERAL COMMENT

While the Arizona Department of Education (ADE) welcomes recommendations that will lead to improved administration and allocation of funds, it does not believe that the Auditor General Performance Audit Division's report fully acknowledges all aspects of ADE's efforts to ensure that student attendance data is accurate and monies are appropriately allocated to Local Education Agencies (LEAs). ADE does indeed have a system in place to help ensure that State aid is appropriately allocated.

Expanded Audit Unit - ADE's Audit Resolution Unit (ARU) conducts audits of student attendance records, and will need to hire additional auditors in order to expand the scope and/or number of audits they conduct. The State Legislature approved four additional auditor positions for FY07, but additional audit staff will need to be requested to comply with the recommendations in this performance audit. Over the past three years, the ADE's audit process has identified approximately \$1.75 million in over-reported Average Daily Membership (ADM) by school districts and charter holders.

SAIS and School Finance Unit Critical Activities - The School Finance Unit and the Student Accountability Information System (SAIS) perform critical functions to help ensure accurate LEA attendance data. SAIS requires extensive edit, i.e., integrity checks to ensure that student attendance data submissions by Local Education Agencies (LEAs) meet State law and ADE business rules. School Finance provides extensive training via its System Training and Response (STaR) Team to LEAs regarding business rules and proper procedures for uploading student attendance information into the automated SAIS. School Finance data analysts provide extensive technical assistance and review integrity errors identified by the SAIS. They then will work with the LEAs to correct the erroneous student attendance data. Funding related to specific integrity errors is withheld until the student attendance data errors are corrected. Pursuant to Arizona Revised Statutes (ARS) § 15-915, School Finance staff process approved corrections initiated primarily by LEAs to their prior year student attendance data.

Other Needed Tools Being Developed - The ADE continues to assess and develop other critical tools needed to help ensure appropriate fund allocation. First, to address the problem of some LEAs not maintaining original student attendance source documentation, ADE recently issued School Finance Memorandum 07-004 on July 14, 2006, entitled, "Records Retention Relating to Original Student Attendance Source Documentation." This policy will help LEAs comply with statutory requirements, and help ensure that auditors have sufficient information to accurately determine whether LEA funding adjustments are needed. Second, ADE continues to develop policies and procedures related to student attendance and Average Daily Membership (ADM), and will contract for a policy development/rules writer. Third, ADE is currently researching the viability of using statistical sampling for auditing LEAs with an ADM exceeding 500. If feasible, this would more efficiently utilize audit resources, and further enhance state-wide coverage. Fourth, to improve audit efficiency for smaller LEA's, ADE will be developing more streamlined audit procedures for LEAs with an ADM of less than 500. Fifth, ADE has established the School Finance Advisory Committee (SFAC) comprised of ADE and LEA representatives to address various funding issues. An SFAC subcommittee has been assigned to determine solutions to address shortcomings in certain student management systems that are unable to separately capture original student attendance entries verses subsequent student attendance entries.

ADE COMMENTS REGARDING FINDING 1: PAGES 7 – 13

Finding 1's conclusion that "ADE should implement a comprehensive system to ensure the accuracy of LEAs' attendance data state-wide" may inappropriately imply a greater need for ADE involvement in day-to-day LEA student attendance reporting activities. In the State of Arizona, there are approximately 2,000 schools with grades kindergarten through twelve, comprising nearly 1,000,000 students. By statute, LEAs self-report student attendance data to the SAIS in timeframes ranging from daily up to 20 days. Based on that uploaded data, ADE issues funds to districts monthly, except for August and November, and to charter holders on a monthly basis. Other than the aforementioned training provided to LEAs by the ADE School Finance Unit, few practical opportunities exist to ensure the accuracy of student attendance data until after the data is submitted and subject to SAIS quality control measures. Further, ADE and independent CPA firm audit activities involving student attendance data are conducted after the end of the school year, and thus examine prior year data. ADE auditors test whether previous year's student attendance data processed by the SAIS is substantiated by original student attendance source documentation retained by the LEA. Once this test work is completed, auditors determine whether an LEA was either over-funded or under-funded.

Finding 1, Recommendation 1

ADE should implement a comprehensive system to ensure the accuracy of schools' attendance data state-wide. ADE should consider:

- a. Seeking statutory revisions to require that CPA firms, as part of their financial audits of LEAs, determine the accuracy of attendance data, and work with the Office of the Auditor General to define the new requirements; and/or
- b. Expanding the number of attendance data audits conducted by its Audit Resolution Unit.

ADE Response

The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

- a. ADE will work with the Auditor General to define CPA firms' requirements to help determine student attendance data accuracy. ADE believes the most cost effective use of CPA firms is to enhance their current duties as outlined in the three compliance questionnaires. ADE will review the questionnaires and develop specific proposals for consideration by the Auditor General. ADE will also request any needed statutory changes to implement those proposals.

ADE does not believe that using CPA firms to perform ADM audits would be cost effective. CPA firms' average billing rates are nearing \$100 per hour. That billing rate combined with the number of additional hours needed to accurately assess student attendance data would be cost-prohibitive. However, CPA firms' limited review of student attendance data could be expanded. This would provide additional information regarding LEA non-compliance for use by ADE's Audit Resolution Unit to select LEAs for audit. In addition, CPA firms could be better utilized to assess the adequacy of internal controls over the availability and retention of original student attendance data.

- b. ADE is taking a two-pronged approach to expand the number of ADM audits. To improve audit efficiency and effectiveness, ADE is 1) assessing the viability of utilizing statistical sampling for larger LEAs; and 2) developing more streamlined audit procedures for smaller LEAs. In addition, ADE will continue to develop policies to address school attendance issues, and contract for a policy writer to assist in that effort.

After efficient and effective audit procedures have been implemented, ADE will request additional staff to ensure that all LEAs are audited on a regular audit cycle. ADE will also review other states' procedures as part of its analysis to determine the most cost effective audit cycle and staffing level. ADE will then develop a legislative budget request for those additional ADM auditors.

Finding 1, Recommendation 2

Once it has implemented a comprehensive system to ensure the accuracy of LEAs' attendance data state-wide, ADE should make state aid payment adjustments based on the results.

ADE Response

The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

Under ADE's current process, any known overpayments are recovered and any known underpayments are distributed.

ADE COMMENTS REGARDING FINDING 2: PAGES 15 - 20

Finding 2, Recommendation 1

In carrying out its discretionary grants program, ADE should obtain and maintain additional records concerning past grant activities and use them to make better decisions about future grant applications.

ADE Response

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Currently, the ADE has a centralized process that identifies all grants for which the ADE has applied, all grants ADE has received and the grants that were not awarded to the ADE. In FY 2006-2007 and future fiscal years, the ADE will also maintain additional records concerning grant activities. These additional records should answer the following two questions. Why did the ADE choose not to pursue a grant for which the ADE was eligible to apply? Why did the Federal agency not award a grant for which the ADE applied? Finally, any additional information that would assist the ADE to improve future grant applications will be maintained.