Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Arizona School for Integrated Academics and Technologies, Inc. Fiscal Years 2010, 2011 and 2012

Report Number—13-4

June 7, 2013

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John Huppenthal
Superintendent of
Public Instruction

June 7, 2013

Dr. Linda Dawson, Superintendent
Arizona School for Integrated Academics and Technologies, Inc.
2611 Temple Heights Drive, Suite A
Oceanside, CA 92056

Dear Superintendent Dawson:

The Arizona Department of Education Audit Unit has conducted an audit of the Arizona School for Integrated Academics and Technologies, Inc.'s (SIATech) Average Daily Membership for Fiscal Years 2010, 2011 and 2012. The purpose of the audit was to address whether SIATech properly reported student enrollment and attendance and to determine if it received the correct amount of Basic State Aid.

The audit found that SIATech was overfunded for nearly $4.9 million for improperly reporting students' enrollment status because it included classes it did not provide. Additionally, SIATech did not correctly report 55 students to SAIS for funding and was underfunded by $167,052.87. Finally, SIATech did not maintain the required student records in its student files. The Notice of Audit Findings and Required Reimbursement issued concurrently with this report becomes final 30 days after issuance, unless SIATech files an appeal.

We appreciate the cooperation and assistance provided by SIATech's administration during the course of the audit.

Sincerely,

Arthur E. Heikkila
Chief Auditor

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BCS00107

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Arizona School for Integrated Academics and Technologies, Inc. (SIATech) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether SIATech properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2010 through FY2012.

Average Daily Membership audits of district and charter holder funding—Pursuant to A.R.S. § 15-239, ADM audits help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. School districts and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE. ADE processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

The ADM audit process determines whether payments were correct or if an adjustment is needed. The audit process compares the school district or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district or charter school's reported information does not match the original documentation, they will calculate and report the funding adjustment needed to the school district's or charter school's Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings. The audit findings are written and compiled into a report that is then issued to the audited entity.

Superintendent's legal notice links the audit and appeals processes—In addition to the report, the audited entity also receives The Notice of Audit Findings and Required Reimbursement (Notice) that details the audit findings and determination of the Superintendent of Public Instruction regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915. As described in the next paragraph, the audited entity may appeal the Superintendent's decision in the Notice.

Opportunity to appeal the audit—A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the Superintendent's decision in the Notice with the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school district or charter school and ADE may reach agreement in an informal settlement conference. If an agreement is not reached at the informal settlement conference, the appeal will be adjudicated by the Office of Administrative Hearings.

Funding adjustment process and timeframes—When the Notice is finally settled or adjudicated, if ADE has determined that a school district or charter school received an incorrect amount of Basic State Aid, A.R.S. § 15-915 directs that corrections to schools' funding be made in the current budget year. In case of hardship, schools may request that the Superintendent of Public Instruction allow a correction to be made partly in the current budget year and partly in the following budget year.

SIATech financial and other information—SIATech is a 501 (c)(3) non-profit corporation and maintains schools in Phoenix and in Tucson, both of which opened in 2001. The Phoenix and Tucson schools are overseen by a five member board of directors. Both schools employ teachers and other staff such as instructional aides. For FY2012, SIATech reported a total fall enrollment of 358 students.

In July 2011, SIATech entered into a Cooperation and Licensing Agreement with New Education for the Workplace, Inc. (NEWCorp), a California public benefit corporation that is an affiliate of School for Integrated Academics & Technologies, Inc., a California public benefit corporation (SIATech ®), located in Oceaside, California.[1] Pursuant to the Agreement, SIATech receives accreditation from NEWCorp to utilize SIATech ®'s intellectual property to replicate SIATech ®'s school design. In addition, NEWCorp performs multiple functions for SIATech, such as providing curriculum, human resources and other administrative services. NEWCorp also provides the computers that are used by students and staff.

Further, NEWCorp serves as the intermediary between SIATech and ADE for the management of student data. For example, NEWCorp electronically receives SIATech's student enrollment and attendance data and then transfers this data to Arizona's SAIS system. A NEWCorp staff member is responsible for addressing any issues that may arise regarding SAIS data submission and accuracy.

Table 1 provides combined totals for both schools for student, staffing and expenditure information for FY2010, FY2011 and FY2012.

Table 1

Arizona School for Integrated Academics and Technologies, Inc.
Phoenix and Tucson Schools
Students, Staffing, Revenues and Expenditures
FY2010, FY2011 and FY2012
(Unaudited)

	FY2010	FY2011	FY2012
Students Enrolled	457	402	358
Number of Teachers	13	12	12
Revenue			
Local	$ 430	$ 798	$ 218
Intermediate	0	0	0
State	2,239,385	2,303,820	2,541,175
Federal	752,456	211,218	72,753
Total Revenues	$2,992,271	$2,515,836	$2,614,146
Total Expenditures	$2,912,775	$2,746,907	$2,691,586

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2010, FY2011 and FY2012.

Relationship to the federal Job Corps—The relationship between each SIATech school and Job Corps is reflected in a Memorandum of Understanding between the entities. The agreement specifies that the business relationship is non-financial, in that neither provides funding or is billed for any services

[1] NEWCorp is also associated with and provides similar services to charter schools in Arkansas, California, Florida and New Mexico.

provided or received. SIATech's two schools in Arizona provide high school curriculum at Job Corps Centers located in Phoenix and Tucson. This arrangement allows Job Corps to provide a high school curriculum for students enrolled in Job Corps who also want to earn a high school diploma in addition to their Job Corps' program training. Each of the Arizona schools is housed within the federal Job Corps Centers in Phoenix and Tucson, in space provided for and maintained by Job Corps. According to SIATech documentation, SIATech provides its students with a few electives and core curriculum courses, such as mathematics, language arts and science, and Job Corps provides elective courses in areas such as plastering, carpentry and retail store management.

Job Corps was established in the 1960s to provide vocational and career preparation training programs to youth throughout the United States. More specifically, Job Corps is a federal program within the U.S. Department of Labor that provides vocational and career preparation training programs to low income urban youth between the ages of 16 and 24 who have had difficulty in traditional high school programs, dropped out of school or are facing academic or personal challenges that make attending a traditional high school difficult. According to Job Corps, its mission is to attract eligible young people, teach them the skills they need to become employable and independent and place them in meaningful jobs or further education. Job Corps' operational costs are funded at the federal level, through the Department of Labor.

SCOPE AND METHODOLOGY

The audit focused on whether SIATech accurately reported its enrollment and attendance data to ADE and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Records and its own policies and procedures for FY2010, FY2011 and FY2012.

To conduct this audit, auditors used a variety of methods, including examining SIATech and SAIS records for enrollment and attendance. Auditors also reviewed state statutes and SIATech policies and procedures, and interviewed SIATech, NEWCorp and Job Corps management and staff.

Additionally, auditors performed specific tasks for the following finding areas:

- **Improperly reported enrollment status**—To determine whether SIATech reported the correct enrollment status, auditors analyzed students' weekly schedules for FY2010, FY2011 and FY2012 at each school to determine their actual status as either full-time or part-time students. Auditors analyzed 100% of the student records for the three fiscal years audited. For FY2010 and FY2011, auditors reviewed student weekly schedules that comprised the first 100 days of both school's calendars. For FY2012, SIATech adopted a 200 day calendar, and auditors reviewed student weekly schedules for the full 200 days. These review periods reflect statutory funding formula requirements for the type of school calendar SIATech selected. Auditors then recalculated SIATech's ADM according to the appropriate statutory formulas, and calculated the associated funding adjustments.

- **Underreported student ADM**—To determine whether SIATech accurately reported student enrollment data to ADE, auditors compared data in SIATech's system to the data in SAIS. Additionally, auditors reviewed the students' weekly schedules to verify that these students were enrolled in courses actually taught by SIATech teachers. Auditors then calculated the funding adjustments associated with these students.

- **Missing student records**—To determine whether SIATech properly maintained documents in student cumulative files as required by state law, auditors reviewed student cumulative files, interviewed SIATech staff and reviewed SIATech policies and other documents.

The Audit Unit expresses its appreciation to SIATech, NEWCorp and Job Corps administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: SIATECH WAS OVERFUNDED NEARLY $4.9 MILLION FOR IMPROPERLY REPORTED ENROLLMENT STATUS

SIATech improperly reported the enrollment status as full-time for 2,047 students during the three fiscal years audited. This occurred when SIATech improperly included Job Corps training program classes when reporting the enrollment status of each student to ADE. Auditor analysis found that 40.18%, or 824 of SIATech's students, who were reported as enrolled full-time, were actually never enrolled in any classes taught by SIATech teachers. In addition, auditor analysis found that 59.63%, or 1,223 students, were actually enrolled only part-time in SIATech classes, instead of the full-time status reported for funding. Arizona statutes require schools to report enrollment status based on instruction offered, and also requires that the instruction is conducted in a recognized high school. SIATech should not have received funding for Job Corps classes because those classes were not provided by SIATech, but by Job Corps, which is not a recognized high school. SIATech must cease claiming enrollment for Job Corps classes, and must repay ADE the $4,888,509.48 in Basic State Aid that SIATech improperly received for the three fiscal years audited.

SIATech Improperly Reported Enrollment Status By Including Classes It Did Not Provide

SIATech overreported the enrollment status for most of its students. This occurred because SIATech improperly included Jobs Corps training program classes when determining the enrollment status for each student. As a result, SIATech's ADM was significantly overstated by a total of 760.18 for the three fiscal years audited. SIATech reported full-time enrollment status for its entire three year total of 2,051 students. However, auditor analysis of SIATech's enrollment data found that 99.81% of its students attended SIATech either part-time or did not attend SIATech at all. Specifically:

- 824, or 40.18%, were not enrolled in any of SIATech's courses;
- 1,223, or 59.63%, were determined to be part-time students; and
- Only 4 students, or 0.19%, met statutory full-time status requirements.

Table 2 (see page 6) summarizes SIATech's audited enrollment status for all enrolled students for each of the three fiscal years audited and the related overstated ADM.

Table 2

Arizona School for Integrated Academics and Technologies, Inc.
Total Students and Audited Student Enrollment in SIATech's Courses
FY2010, FY2011 and FY2012

	Total Students Reported as Full-Time	Audited Number of Students Enrolled Full-Time	Audited Number of Students Enrolled Part-Time	Audited Number of Students Never Enrolled in Any SIATech Courses	ADM Overstatement
FY2010	641	4	361	276	268.24
FY2011	658	0	400	258	242.95
FY2012	752	0	462	290	248.99
Total	**2,051**	**4**	**1,223**	**824**	**760.18**

Source: Auditor analysis of SAIS and SIATech records for FY2010, FY2011 and FY2012.

Statutes Do Not Allow SIATech To Claim Funding for Job Corps Training Program Classes

SIATech should not have counted for enrollment status student time spent in Job Corps training program classes because those classes did not meet Arizona statutory criteria for Basic State Aid funding. Statutes base school funding on the enrollment status and instructional hours provided in a recognized high school. Job Corps training program classes did not meet statutory requirements to be considered a recognized high school, and therefore its classes should not have been claimed for enrollment or ADM. SIATech, as a recognized high school, should have only claimed enrollment and ADM for courses it actually provided, and should not have claimed for ADM and funding the time students spent in ineligible Job Corps training programs.

Statute defines how a charter school should be funded—In order for a school to receive Basic State Aid, it must comply with Arizona statutes that establish how public high schools are funded. Schools in Arizona receive Basic State Aid based on several factors related to student enrollment, which determines a school's total ADM, which then is used to determine funding. The following statutes define how ADM is calculated for funding for a charter school:

- A.R.S. § 15-101, defines a school as "*any public institution established for the purposes of offering instruction to pupils in programs for preschool children with disabilities, kindergarten programs or any combination of grades one through twelve.*"

- A.R.S. § 15-901, defines ADM to mean the total enrollment of fractional students and full-time students, minus withdrawals, of each school day through the first one hundred or two hundred days in session, as applicable.

- A fractional student is defined as "*a part-time student who is enrolled in less than four subjects that count toward graduation as defined by the state board of education in a recognized high school.*"

- A full-time student at a high school is one who is "*enrolled in at least an instructional program of four or more subjects that count toward graduation as defined by the state board of education that meets for a total of at least 720 hours for a 180 day school year or the instructional hours prescribed in this section in a recognized high school.*"

Job Corps' training program classes were not eligible for Arizona Basic State Aid—SIATech should not have claimed enrollment and funding for Job Corps training classes because those classes were not provided in a recognized high school and did not meet the statutory criteria for receiving state funding based on enrollment and ADM. Job Corps is a federal program, and all of the Job Corps' mandates regarding its operations are developed, overseen and funded by the United States Department of Labor. Further, Job Corps' primary mission is providing technical and career training programs to low income urban youth between the ages of 16 and 24. These training programs are: provided at Job Corps centers; taught by Job Corps instructors; assessed by Job Corps instructors; aligned to United States Department of Labor standards; overseen and reviewed by Job Corps instructors; and graded by Job Corps instructors.

Since Job Corps is not part of the Arizona public educational system, it is not a recognized high school. Neither ADE nor SIATech has any involvement in developing Job Corps training course curriculum, providing instruction for Job Corps classes or providing funding to Job Corps. Therefore, the training program classes provided by Job Corps do not meet the statutory requirements to be included as a part-time or full-time instructional program. As a result, Job Corps' training programs do not meet statutory criteria for SIATech to claim them for Arizona Basic State Aid.

Improper Enrollment Reporting Resulted in SIATech Being Overfunded by Almost $5 Million

Because SIATech improperly claimed Jobs Corps training programs to calculate each student's enrollment status, SIATech was significantly overfunded. For the three fiscal years audited, SIATech's ADM was overstated by a total of 760.18, which resulted in a total overfunding of $4,888,509.48 in Basic State Aid. As required by A.R.S. § 15-915, ADE must recoup this overfunding from SIATech. Table 3 (see page 8) summarizes the ADM overstatements and funding adjustments required for each of the three fiscal years audited.

Table 3

Arizona School for Integrated Academics and Technologies, Inc.
ADM and Funding Adjustments for Improper Enrollment Reporting
FY2010, FY2011 and FY2012

	Never Enrolled in Any SIATech Courses		Enrolled Part-Time		Total	
	ADM	Funding	ADM	Funding	ADM	Funding
FY2010	121.02	$ 771,882.63	147.22	$ 939,021.81	268.24	$1,710,904.44
FY2011	98.12	$ 620,518.86	144.83	$ 915,907.22	242.95	$1,536,426.08
FY2012	96.17	$ 633,865.59	152.82	$1,007,313.37	248.99	$1,641,178.96
Total	315.31	$2,026,267.08	444.87	$2,862,242.40	760.18	$4,888,509.48

Source: Auditor analysis of SAIS and SIATech records for FY2010, FY2011 and FY2012.

SIATech Should Only Seek State Funding for Classes That It Provides

To ensure that it follows State law, SIATech needs to cease including student time spent in Job Corps training programs when submitting enrollment data to ADE. SIATech should only submit for funding the enrollment for students attending classes offered and taught by SIATech. SIATech also must review its FY2013 data, exclude student enrollment related to Jobs Corps training program classes and re-submit corrected student enrollment data to ADE. Not doing so would result in improper over funding for FY2013 similar to what the audit found for the three previous fiscal years. To assist SIATech in complying with Arizona statutes, it needs to develop policies and procedures that reflect the statutory requirements regarding enrollment and funding.

Recommendations:

1. SIATech must repay $4,888,509.48 in overfunded Basic State Aid in FY2010, FY2011 and FY2012 for enrollment status reporting errors.

2. SIATech must immediately cease the practice of counting student time spent in training classes offered by entities that are not recognized high schools in Arizona for ADM and funding purposes.

3. To ensure that its FY2013 ADM and funding is appropriate, SIATech must immediately correct its FY2013 data to accurately reflect enrollment status for students attending SIATech courses, and resubmit to ADE the proper enrollment data for its students.

4. SIATech should adopt policies to ensure that it is complying with ADM and funding statutes, guidelines and rules.

FINDING 2: SIATECH DID NOT CORRECTLY REPORT 55 STUDENTS TO SAIS FOR FUNDING

SIATech failed to report to SAIS 55 students who attended SIATech during two of the three fiscal years audited. Since SIATech did not properly reconcile its data to ensure that all students were reported correctly, it was not funded appropriately for these students. As a result, SIATech's ADM was underreported by 26.15 and it was underfunded by a total of $167,052.87 over the three fiscal years audited.

55 Students Who Attended SIATech Were Not Reported to SAIS for Funding

SIATech did not report to SAIS some students who attended its schools and were eligible to be funded. In comparing SIATech's student management system to SAIS, auditors found 55 students on SIATech's system who were reported as having attended during the year; however, they were not on the SAIS report. To further verify that these students were properly enrolled and taking courses offered by SIATech, auditors reviewed SIATech's weekly student schedules and found that these students were actually enrolled in courses at SIATech. As a result of not being reported correctly, these students were not included in the ADM calculation used to determine funding.

Auditors determined that most of the students who were not reported to SAIS attended during FY2010. According to SIATech staff, the employee responsible for reporting SIATech's student data to SAIS that year is no longer with SIATech, and the remaining staff could not explain why this oversight occurred. However, it appears that this employee did not appropriately reconcile SIATech's records to SAIS. Table 4 shows that as a result, 53 students who were eligible for 24.91 ADM were not funded in FY2010. In addition, two students in FY2012 were not reported correctly, resulting in an underreporting of an additional 1.24 ADM. In the future, SIATech needs to reconcile its reports to SAIS to verify that its data is correct.

Table 4

Arizona School for Integrated Academics and Technologies, Inc.
Students and ADM for Students Not Reported to SAIS
FY2010, FY2011 and FY2012

	Students	Underreported ADM
FY2010	53	(24.91)
FY2011	0	0.00
FY2012	2	(1.24)
Total	55	(26.15)

Source: Auditor analysis of SIATech and SAIS records for FY2010, FY2011 and FY2012.

SIATech Was Underfunded By $167,052.87

As a result of SIATech not ensuring that all students were reported to SAIS for funding, auditors determined that SIATech was underfunded by $167,052.87 for the three fiscal years. SIATech's ADM was underreported in FY2010 by 24.91 and in FY2012 by 1.24. As shown in Table 5, this resulted in an overall underfunding of $167,052.87 which must be paid to SIATech by ADE.

Table 5

Arizona School for Integrated Academics and Technologies, Inc.
ADM and Funding Adjustments
FY2010, FY2011 and FY2012

	ADM Adjustment	Funding Adjustment
FY2010	(24.91)	$ (158,879.49)
FY2011	0.00	$ 0.00
FY2012	(1.24)	$ (8,173.38)
Total	**(26.15)**	**$ (167,052.87)**

Source: Auditor analysis of SIATech records and ADE records for FY2010, FY2011 and FY2012.

Recommendations:

1. In the future, SIATech needs to reconcile its reports to SAIS to verify that its data is correct.
2. ADE must pay SIATech $167,052.87 for underreported ADM that was underfunded.

FINDING 3: SIATECH DID NOT MAINTAIN STUDENT RECORDS REQUIRED BY STATUTE

SIATech did not maintain required student records in any of the students' cumulative files. Although required by statute, SIATech failed to obtain and maintain copies of students' birth certificates and immunization records. Additionally, one of the school sites failed to use the state approved withdrawal form.

Birth Certificates and Immunization Records Not Maintained in the Students' Cumulative Files

Auditors found that SIATech failed to maintain birth certificates and immunization records in every one of its student cumulative files. A.R.S. § 15-828 requires a school district or charter school to obtain either a certified copy of a student's birth certificate or other reliable proof of the student's age and identity upon enrollment. A photocopy of this document is required to be placed in the student's file and the original returned.

In addition, statute prohibits a pupil from attending school without submitting either documentary proof of immunization or an exemption from immunization. As required by A.R.S. § 15-872 (B):

> *"A pupil shall not be allowed to attend school without submitting documentary proof to the school administrator unless the pupil is exempted from immunization pursuant to section 15-873."*

According to SIATech officials, SIATech relies upon Job Corps to maintain both the birth certificates (or other reliable proof of identification) and the immunization records in Job Corps' records instead of ensuring copies were also maintained in SIATech's permanent student records. However, SIATech must follow the law, and collect and maintain sufficient documentation in SIATech's student cumulative files.

Proper Withdrawal Form Not Used at One School

SIATech did not use the correct withdrawal form when students withdrew at the Tucson location. This school site relied on a different form to document withdrawals that was not the required form. However, according to EX-18 School Finance Procedures Manual, *"As documentation helps to ensure uniform and comparable data across schools, districts and charters are required to use the form: Official Notice of Pupil Withdrawal when a student withdraws during the school year."* According to SIATech officials, during the course of the

audit, a procedure was put in place to ensure that the Official Notice of Pupil Withdrawal form will be used in the future to document all student withdrawals.

Recommendations:

1. SIATech must comply with statute and collect and maintain in each students' file copies of birth certificates or other identification documentation required by law, as well as immunization records or exemptions.

2. SIATech must ensure that both of its sites use the state approved withdrawal form for all withdrawals.

ADM FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of $4,721,456.61 for the three fiscal years audited:

- $ 4,888,509.48 for inappropriately reported enrollment status, and;
- $(167,052.87) for students who were not reported correctly for funding.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for SIATech for FY2010, FY2011 and FY2012.

Table 6

Arizona School for Integrated Academics and Technologies, Inc.
ADM and Funding Adjustments Required For
FY2010, FY2011 and FY2012

	FY2010		FY2011		FY2012		
	ADM	Funding	ADM	Funding	ADM	Funding	Total Adjustment
ADM incorrectly reported	268.24	$1,710,904.44	242.95	$1,536,426.08	248.99	$1,641,178.96	$4,888,509.48
ADM not reported to SAIS	(24.91)	$ (158,879.49)	0.00	$ 0.00	(1.24)	$ (8,173.38)	$ (167,052.87)
Total	**243.33**	**$1,552,024.95**	**242.95**	**$1,536,426.08**	**247.75**	**$1,633,005.58**	**$4,721,456.61**

Source: Auditor analysis of SAIS and SIATech student and financial data for FY2010, FY2011 and FY2012.