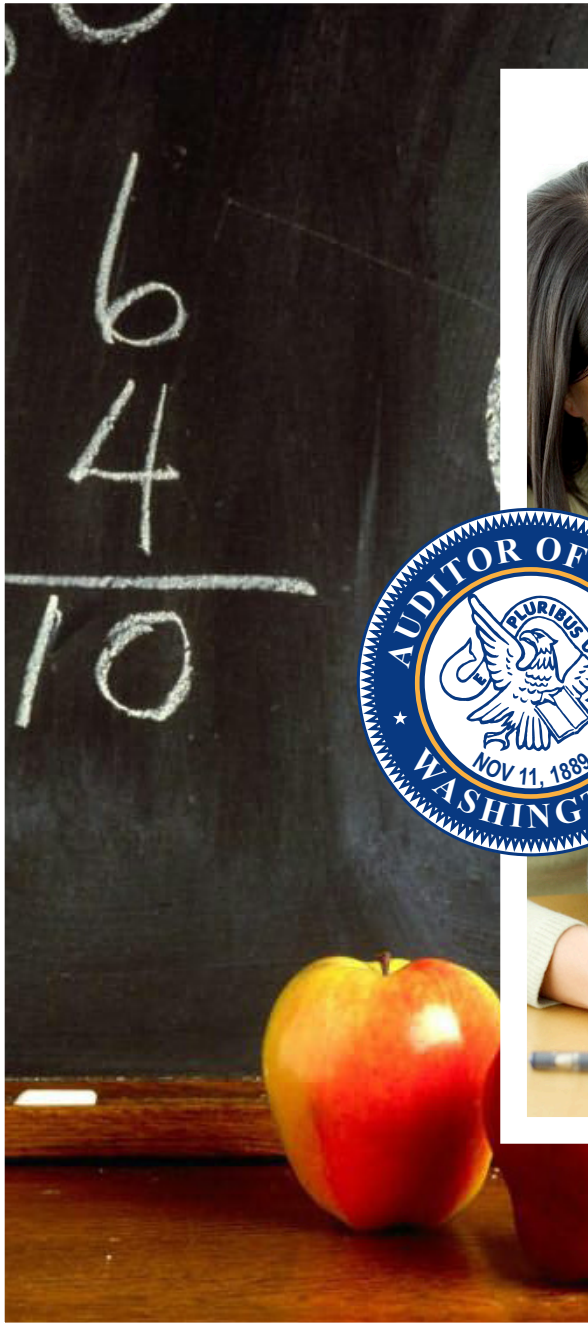


STATE AUDITOR'S OFFICE

SCHOOL PROGRAMS

2009 APPORTIONMENT AUDIT REPORT



FEBRUARY 2011



APPORTIONMENT AUDITS

Each year, the State Auditor’s Office audits how public school districts report three areas to the Office of Superintendent of Public Instruction (OSPI):

- Student enrollment.
- Certificated instructional employees’ education and experience (staff mix).
- Student transportation.

OSPI uses this information to determine districts’ apportionment funding. Seventy percent of the money districts receive is based on the numbers reported in these three areas. Accurate reporting is critical for ensuring the funding amounts are correct.

The state constitution and state law set out the State Auditor’s Office responsibilities. As the public’s advocate for government accountability, we perform regular financial and legal compliance audits of all state agencies and local governments, including school districts.

In 1998, the Legislature gave our Office new audit responsibilities related to school districts and we assembled a schools team to oversee that work. In addition to auditing apportionment funding and recommending recoveries, school district auditors train District staff on how to comply with reporting requirements and how to avoid reporting errors. This helps prevent overpayments and underpayments to school districts.

When we conduct apportionment audits, we examine activities from the previous fiscal year. For example, our work in 2010 examined activities in fiscal year 2009, which ended on August 31, 2009.

Apportionment funding:

- Represents 70 percent of school district funding
- Based on three criteria:
 - Number of students enrolled
 - Teacher education and experience (staff mix)
 - Student transportation

OUR MISSION

The State Auditor’s Office independently serves the citizens of Washington by promoting accountability, fiscal integrity and openness in state and local government. Working with these governments and with citizens, we strive to ensure the efficient and effective use of public resources.

WHAT WE FOUND BY THE NUMBERS

For fiscal year 2009, we identified:

- \$2,823,783 in overpayments to districts
- \$93,518 in underpayments to districts

State law says OSPI is responsible for determining what it will collect from overpaid districts and what underpayments it will resolve.

These tables show the recommended recoveries we identified for fiscal years 2007 through 2009.

2009 recommended recovery amounts

| | Owed to state | Owed to districts |
|-------------------------------|--------------------|-------------------|
| Enrollment (86 districts) | \$2,225,589 | \$3,950 |
| Staff mix (106 districts) | \$27,013 | \$23,869 |
| Transportation (78 districts) | \$571,181 | \$65,699 |
| Total | \$2,823,783 | \$93,518 |

2008 recommended recovery amounts*

| | Owed to state | Owed to districts |
|-------------------------------|------------------|-------------------|
| Enrollment (83 districts) | \$134,074 | \$80,999 |
| Staff mix (15 districts) | \$190,403 | \$26,059 |
| Transportation (97 districts) | \$134,074 | \$13,068 |
| Total | \$458,551 | \$120,126 |

*OSPI had not yet resolved most recommended recovery amounts by the date of this report.

2007 recommended recovery amounts*

| | Owed to state | Owed to districts |
|--------------------------------|--------------------|-------------------|
| Enrollment (104 districts) | *\$5,610,043 | \$1,523 |
| Staff mix (24 districts) | \$21,332 | \$18,058 |
| Transportation (123 districts) | \$363,134 | \$264,964 |
| Total | \$5,994,509 | \$284,545 |

*Includes \$5,353,941 due from three virtual learning programs we audited.





AUDIT RESULTS

Enrollment reporting

School districts report enrollment in these programs:

- Basic education
- Bilingual education
- Running Start¹
- Special education
- Summer school
- Vocational instruction
- Skills centers²

Basic education, vocational education and skills centers may include programs such as Alternative Learning Experience (ALE), in which students participate in academic activities outside of the school, take online classes for credit or engage in work-based learning.

We focused our fiscal year 2009 audits on districts' reporting of basic enrollment, ALE, skills centers and special education because we have noted a higher likelihood of reporting errors in these areas.

Basic enrollment issues

The state paid school districts an average of \$5,242 per student for one million full-time basic education students in 2009.

We audited basic enrollment reporting at 86 of the state's 295 public school districts. We selected districts based on a risk assessment and how long it had been since we last audited them.

We found one systemic issue in basic education enrollment reporting. Districts do not run or review reports to detect reporting errors in class rosters for partially enrolled students or for absences, which leads to misreporting. Districts also lacked documentation that would be contained in these reports to support enrollment counts.

We also found other issues that were not systemic. For example:

- Twenty-three districts calculated hours incorrectly for partially enrolled students.

¹ A state-funded program in which high school students concurrently enroll in high school and community college courses.

² Skills centers are regional secondary schools that serve high school students from multiple school districts. They provide instruction in preparatory programs that are either too expensive or too specialized for school districts to operate individually.





- Fifteen districts incorrectly counted students who had withdrawn on or before the count date or who had enrolled after the count date.
- Three districts counted partially enrolled students as full-time in September.
- Two districts counted full-time Running Start students for basic enrollment in September. These students do not attend the high school and should not be counted.
- One district counted students shared with another program as more than full time.
- One district included for funding students who were incarcerated on the count date.
- One district counted students prior to receiving a release from the district of residence.
- One district counted a foreign student who was paying tuition.

School districts are required to report to OSPI basic education enrollment from September through May each school year. They receive funding based on the average enrollment over those nine months. Students in kindergarten through third grade must be enrolled at least 20 hours a week to be counted as full-time, while students in grades four through 12 must be enrolled at least 25 hours. Actual hours of enrollment must be reported for part-time students.

In addition, we reviewed Running Start enrollment. Community colleges report Running Start students to the districts in which they reside. Districts then report these students to OSPI and give the money they receive for them to the community colleges. Districts must report full-time Running Start students and regular full-time high school students separately.

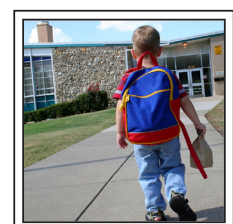
We also reviewed ALE basic enrollment, which may be claimed for basic education funding if the programs provided through it comply with state regulations.

Skills centers reporting issues

We reviewed enrollment at three skills centers that provide programs that are too specialized or too expensive for individual districts to offer. Skills centers receive enhanced funding from the state based on the number of students enrolled. The enhanced funding the state pays is in addition to the basic enrollment funding. For fiscal year 2009, the enhanced funding was approximately \$1,394 per student.

Districts must retain documentation to show they meet requirements, including:

- State approval for vocational skills center courses taught by an instructor who has a valid endorsement for the subject area.
- State approval for vocational skills center programs.





- Documentation supporting the average minutes per day in state-approved vocational skills center courses — 300 minutes per day equals one full-time student.
- Documentation supporting work-based learning provided as part of a state-approved vocational education program.
- If a student enrolls in a high school and a skills center, he or she may be claimed for enrollment by both. Students are counted in numbers known as full-time equivalents, or FTEs. Dual-enrolled students may be counted a maximum of 1.6 FTE. The sponsoring district and the skills center must have internal controls in place to assure dual-enrolled students are not reported for more than 1.6 FTE.

We identified significant errors affecting enrollment funding, including:

- Skills center programs identified as ALE did not follow state requirements for ALE, which include having individualized written student learning plans, weekly contact between students and instructors and monthly progress evaluations. Time spent outside of the classroom and claimed for enrollment funding was not eligible.
- Three instructors did not have valid career and technical education certificates or were not endorsed in the area they were teaching, so students claimed for these courses were not eligible for funding.
- Two courses were not approved by OSPI and were not eligible for funding.
- One skills center and one district double-reported students for funding.

We found other issues that were not systemic. For example, some districts:

- Did not have class schedules for part-time students.
- Incorrectly calculated enrollment hours.
- Included full-time Running Start students in high school counts.
- Incorrectly counted students who were absent for at least 20 consecutive days.
- Did not adequately document attendance, particularly in September.
- Incorrectly counted students who had enrolled or left district.
- Did not generate reports on the count date.

ALE reporting issues

In our fiscal year 2009 ALE audits, we recommended recovery of approximately \$1.6 million. We identified deficiencies in documentation related to ALE:

- Students were counted for enrollment who did not have a District-approved individualized student learning plans on file by enrollment count date.





- Lack of documentation to support that required weekly contact between students and instructors occurred, resulting in students who had not had contact with school staff for more than 20 consecutive days being reported as enrolled.

Basic enrollment errors

| | | | |
|---|---|--|--|
| Districts with errors 45 | Monthly full-time students examined 50,263.06* | Monthly full-time students over-reported 3,958.86 | Monthly full-time students under-reported 32.53 |
|---|---|--|--|

**This includes basic enrollment at three Skills Centers we audited in fiscal year 2009.*

Enrollment funding summary*

| | |
|---------------|--------------------|
| Overpayments | \$2,225,589 |
| Underpayments | \$3,950 |

**This amount reflects combined enrollment errors for basic education, basic education ALE, vocational enhancement, skills center enhancement, and special education at 83 school districts. Results for one school district were not available as of the date of this report.*

Special education reporting issues

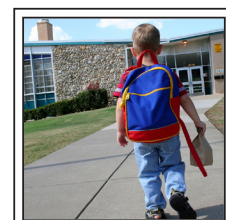
The state paid districts approximately \$789 million in special education money in fiscal year 2009 to provide services to 115,080 students.

We selected 25 districts to audit based on whether we had audited them before and whether we reported significant issues the last time we reviewed special education.

The districts we reviewed represent \$16.7 million in special education funding, which was approximately 2 percent of the state’s total special education enrollment revenue.

At each district, we selected a random sample of student files to test for compliance with reporting requirements, including:

- Current Individual Education Programs (IEPs). These must be updated annually.
- Current student evaluations. These must be updated every 36 months.
- Students were enrolled in the district on the count date.





This table shows the total errors we found in special education reporting.

Special education summary

| | | | | | |
|--------------------------|------------------------------|------------------------------|---|--------------------------------|--|
| Districts audited | Districts with errors | Student files audited | Individual Education Plans not current | Evaluations not current | Student not actively enrolled on count date |
| 25 | 3 | 555 | 0 | 2 | 2 |

Special education safety net verification

In 2010, we also focused audit work on safety net awards for high-cost students. Because districts apply for safety net funds at mid-year using projected financial information, there is a risk projections could be inaccurate and could result in inappropriate awards to districts. Additionally, awards for high-cost students are made for a specific student. Applications for the money assume the student will remain at the District through the end of the school year. When students leave before the end of the year, the money must either follow the student to the new district or the district that applied for the funds must return unused portion to OSPI.

Districts that apply for Safety Net funds use projected financial information, which sometimes results in Districts showing they demonstrate need, and awards are granted inappropriately. Districts should review financial results at year's end to determine if their projections were inaccurate and contact OSPI if they have been over-awarded.

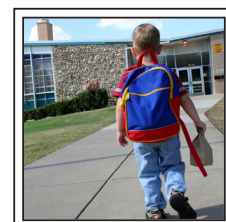
Students who are awarded Safety Net funds based on full year of attendance in a high-cost program occasionally withdraw or transfer from the District or move to a less costly program, reducing or eliminating the costs for which the award was made. Districts should review enrollment for students who receive awards and contact OSPI if adjustments are necessary.

We audited 32 districts that received awards during 2009 to address both of these risks.

A total of 151 districts were funded with state and/or federal special education high-cost individual funding during the 2009 school year, totaling almost \$43 million.

Recommended Recovery of Safety Net funding

| | |
|----------------------|-----------|
| Districts audited | 32 |
| Recommended recovery | \$282,456 |





Staff-mix reporting issues

OSPI funding formulas combine state funding for staff mix with basic enrollment funding. The total was \$5.1 billion in 2009.

Staff mix audits evaluate the accuracy of reporting on each instructor's degree type, the number of continuing education credits earned since the highest degree was obtained and years of teaching experience.

We found that many districts do not have systems in place to ensure accurate staff-mix reporting. Specifically:

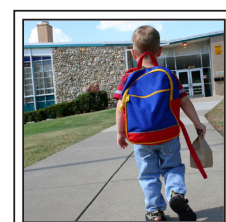
- Sixty-four districts incorrectly calculated staff-mix credits.
- Three districts reported incorrect degree type.
- Two districts did not evaluate transcripts for credits/degrees earned at institutions outside of the United States.
- Fifteen districts did not sufficiently document all credits or years of experience.
- Four districts counted career and technical education before instructors met course requirements.
- Five districts inaccurately calculated business or industry experience.
- Four districts counted more than the maximum industry experience allowed annually.
- Two districts did not adjust records to reflect audited amounts for the prior year audit.

We also found other issues that were not systemic. For example:

- Two districts counted credits from a nonaccredited institution.
- One district counted a degree from a nonaccredited institution.

Teachers' pay is based on where the teacher places on a schedule maintained by the Legislative Evaluation and Accountability Program (LEAP). Staff mix reporting accumulates instructors' educational credits and teaching experience. Thus, errors that do not affect funding in the current year have a high probability of affecting funding in future years.

We reviewed staff-mix files at 106 districts and did follow-up work at districts in which we noted issues in recent audits. We verified those districts had updated their records to reflect audited experience and credits for instructors we identified with funding errors.





Staff mix summary

| | |
|---|----------|
| Districts audited | 106 |
| Districts with errors | 70 |
| Files audited | 605 |
| Files with errors affecting funding | 32 |
| Files with errors not affecting funding this year | 191 |
| Dollars owed to state | \$27,013 |
| Dollars owed to districts | \$23,869 |

Transportation

In fiscal year 2009, school districts received \$257 million in transportation funding from the state. Districts receive this money primarily based on:

- The number of students in a district who use transportation.
- The distance students are transported.
- The types of routes a district uses to transport students.
- The number of school buses a district uses.

State law requires districts to submit a ridership report to OSPI each October. We review these reports for accuracy and to validate districts received correct funding.

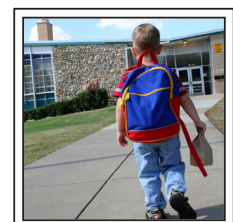
For our audits in this area, we selected 78 districts based on their audit history and unexpected changes in ridership by route type that we noted when we looked at changes in this area over the past four years.

We found some systemic issues regarding transportation reporting:

- Internal controls over ridership reporting were inadequate to assure accurate reporting of student ridership. Overall, employees responsible for this are inadequately trained. We found numerous data entry errors and little monitoring that would detect these errors.
- Districts did not have documentation to support what they reported to OSPI.
- Districts incorrectly reported route types or reported routes that did not qualify for funding.

We also found other issues that were not systemic. For example:

- Thirty-nine districts did not fill out ridership count sheets correctly.
- Twenty-nine districts incorrectly calculated the ridership numbers for routes.
- Six districts incorrectly calculated mileage for cars used to transport students.

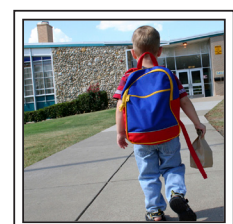




- Six districts did not have documentation to support their counts of kindergarten through fifth-grade students who live within one mile of school. Districts use this count to qualify for special transportation funding.
- Eight districts incorrectly included preschool students in their counts of kindergarten through fifth-grade students who live within one mile of school.
- Two districts incorrectly included all kindergarten through fifth-grade students in the one-mile count.
- Fourteen districts' supporting documentation for kindergarten through fifth-grade students who reside within one mile of school did not tie to data reported.
- Three districts did not have documentation to support riders who took public transportation rather than district transportation.
- Two districts counted students who did not meet the attendance requirement as public transportation riders.
- Eight districts made data transfer and/or clerical errors.

Transportation summary

| | |
|---------------------------|-----------|
| Districts audited | 78 |
| Districts with errors | 58 |
| Riders audited | 44,021 |
| Riders over-reported | 1,267 |
| Riders under-reported | 297 |
| Dollars owed to state | \$571,181 |
| Dollars owed to districts | \$65,699 |





FUTURE APPORTIONMENT AUDITS

For 2010 fiscal year audits , we will focus on three areas of enrollment reporting:

Enrollment

In 2010, districts received approximately \$4,997 per full-time student, excluding enhancements for vocational education.

The risk of error in enrollment reporting is high due to complex systems, staff turnover and migration to electronic records. Most districts use the Washington State Information Processing System to report enrollment. Many employees who generate monthly reports have indicated they are insufficiently trained in how to process and generate the reports. Many schools lack written procedures in these areas.

For 2010, we will audit basic enrollment reporting at 43 districts. We will concentrate on high schools, where the risk is higher due to student involvement in Running Start, skills centers or other programs that reduce the number of hours of enrollment individual districts may report for funding.

Skills Centers

Districts received approximately \$6,367 in funding for each full-time skills center student in 2010. Eleven of these centers are in operation statewide.

We have found skills centers pose high enrollment reporting risks, such as dual reporting. The risk of over-counting enrollment and receiving overpayments is increasing with the creation of independent high schools located within skills centers. For example, without proper controls and monitoring, a student could be counted and paid for at both the skills center and for the high school. In addition, skills centers are creating satellite locations. Five skills centers applications now are in process at OSPI.

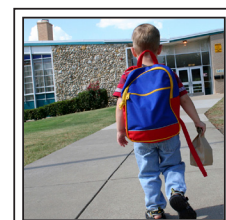
Because no one centrally monitors reporting for these skills centers, that work will be an important part of our 2010 audits.

Alternative Learning Education

For 2010, we will audit 16 districts' ALE programs, including follow-up work in districts audited in 2007. That year, we found multiple issues, including a lack of documentation to support reported enrollment that led to overpayments. We will be looking at whether districts' compliance with reporting and other requirements has improved.

Safety Net

We will review Safety Net awards at school districts in which Safety Net-funded students withdrew from the special education program before the end of the school year. When students withdraw, districts must return the unspent Safety





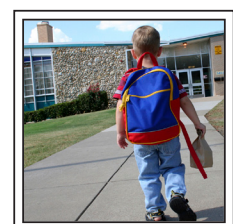
Net money to the state. We will audit 38 districts that received more than \$10 million of the approximately \$19 million in Safety Net money awarded in 2010 to determine if they were financially eligible.

Staff mix

We will audit staff-mix reporting in 68 school districts to determine whether they have corrected errors we identified in our 2009 audits. We will look for documentation to support teacher experience and educational credits claimed. We also will look at the effect frequent staff turnover and lack of training has on reporting. We also will look at whether districts have documentation to support current staff placement on the state salary schedule.

Transportation

We will audit transportation reporting at 95 school districts based on ridership changes that do not reflect enrollment changes and in districts we have not audited in this area for the past two years. We will emphasize districts' need to verify route types and to correctly calculate the number of riders who board at each bus stop before reporting the information to OSPI.





APPENDIX A - APPLICABLE RCWS AND WACS

Enrollment

WAC 392-121-106: Enrolled Student - As used in this chapter, “enrolled student” means a person residing in Washington state who: (4) Actually participated on a school day during the first four school days of the current school term (semester or quarter), or on a school day during the current school term on or prior to the date being counted....

WAC 392-121-108: Enrollment Exclusions ... (1) Absences –a student whose consecutive days of absence from school exceed twenty school days shall not be counted as an enrolled student until attendance is resumed....

WAC 392-121-119: Enrollment Count Dates - As used in this chapter, “enrollment count dates” means the fourth school day of September and the first school day of each of the eight subsequent months of the school year...

WAC 392-121-122: Definition - Full Time Equivalent Student

Secretary of State Disposition Authority Number SD51-02-03: Retention period for enrollment reports that generate apportionment funding is 3 years or until completion of audit.

Secretary of State Disposition Authority Number SD51-04-04: Retention period for attendance reports that support enrollment reports is 3 years or until completion of State Auditor’s examination report.

Alternative Learning Experience (ALE): A subset of basic education consisting of individual courses of study for students who meet the definition for enrollment specified by WAC 392-121-106; supervised, monitored, assessed, and evaluated by school staff; provided in accordance with a written alternative learning experience plan; provided in whole or part, outside the regular classroom setting, including those learning experiences provided digitally via the internet or other electronic means.

WAC 392-121-182: Alternative Learning Experience requirements

WAC 392-121-188: Instruction provided under contract.

WAC 392-121-124: Full-time equivalent enrollment for work based learning

RCW 28A.200: Home Based Instruction

WAC 392-121-122: Definition for Vocational full-time equivalent enrollment shall be determined and shall be reported on the same monthly basis as the enrollment for students eligible for basic support.



WAC 392-121-136: Limitations on enrollment counts...are subject to the following limitations: 1) Except as provided in ... (c) Subjects to (b) of this subsection, a student enrolled in a skill center program during the regular school year may be claimed for up to a combined 1.6 full-time equivalent student.

WACs 392-121-138: For the purpose of enhanced funding for vocational education, full-time equivalent enrollment in vocational and skills center programs shall be based upon the actual hours of enrollment in state approved vocational courses.

WAC 181-77-020: Certificate required. Persons serving as career and technical education instructors, career and technical education directors and assistant directors, career and technical education supervisors, career and technical education counselors, and occupational information specialists shall hold certificates authorized by the professional educator standards board for service in the respective roles.

Staff Mix

WAC 392-121-200 through 299: provide the regulations, including related definitions, for determining a school District's staff mix factor for the basic education apportionment allocations.

WAC 392-121-264: ..Certificated years of experience.

WAC 392-121-250: ...Highest degree level.

Transportation


WAC 392-141-160: Transportation District Reporting and Recordkeeping Requirements.

Audit Resolution

RCW 28A. 300.175: Recovery of payment to recipients of state money – Basis – Resolution of audit findings – Rules The superintendent of public instruction shall withhold or recover state payments to school districts, educational service districts, and other recipients of state money based on findings of the Washington state auditor. When an audit questions enrollment, staffing, or other data reported to the state and used in state apportionment calculations, the superintendent of public instruction may require submission of revised data, or as an alternative may adjust data based on estimates, and shall revise apportionment calculations and payments accordingly. The superintendent of public instruction shall adopt rules setting forth policies and procedures for the resolution of monetary and nonmonetary audit findings involving state money.

Safety Net

WAC 392-140-630: Special education safety net — Special education program audit team — Purpose, procedures.



Special education program audits by staff of the state auditor's office may be requested to assist the special education safety net committee. When reviewing a school district's special education program, the auditors may review and verify any certifications and supporting information provided by the district in a safety net application. The auditors may provide the results of the review to the state oversight committee. The results of the auditor's review may be considered by the oversight committee in determining, adjusting, or recovering safety net awards.

WAC 392-140-675: Special education safety net — Adjustments to special education safety net allocation Safety net allocations may be adjusted as follows:

(2) Special education safety net allocations for a school district may be adjusted to reflect changes in factors for which additional or revised information becomes available after the awarding of the initial safety net allocation. This means:

(a) High need awards and/or community impact awards may be reduced or nullified when the school district's actual revenues and expenditures for the school year differ significantly from the estimates on which the initial safety net award was based.

WAC 392-140-685: Special education safety net — Recovery of state and/or federal allocations to school districts. High need student state and/or federal special education safety net allocations and state community impact awards:

(1) Shall be recovered or awards reduced for the following reasons: (a) The application contains a falsification or deliberate misrepresentation, including omission of a material fact.

(b) The allocation is unexpended for the purpose allocated including but not limited to situations where the student leaves the district or has a change in services. For students who transfer to another Washington public school district, expenditures for specialized equipment purchased with these funds shall not be recovered provided the district transfers the equipment to the other school district.

(c) The IEP is determined at a later date, through state audit or child count verification, to be inappropriate or improperly prepared and appropriate and proper preparation would materially affect the justification or amount of need for safety net funding.

(2) May be recovered or awards reduced for the following reasons:

(a) The school district has carryover of state and/or federal flow through special education funding from the school year for which the award was made.

(b) The district's actual revenues are significantly higher than estimated revenues on which the award was based or the district's actual expenditures are significantly lower than the estimated expenditures on which the award was based.



(c) The state oversight committee finds grounds for adjustment in the special education program audit team’s review pursuant to WAC 392-140-630. Recovery adjustments not made in the current school year shall be added to the amount calculated pursuant to WAC 392-140-616

(2)(c) for the following school year. Such amounts reduce state and/or federal safety net awards in the following year.





CONTACTS

Headquarters
(360) 902-0370

Website
WWW.SAO.WA.GOV

Twitter tag
[@WASTATEAUDITOR](https://twitter.com/WASTATEAUDITOR)

STATE AUDITOR BRIAN SONNTAG, CGFM

(360) 902-0361

BRIAN.SONNTAG@SAO.WA.GOV

CHUCK PFEIL, CPA
DIRECTOR OF STATE AND LOCAL AUDIT
(360) 902-0366
CHUCK.PFEIL@SAO.WA.GOV

RICK BONNER, CPA
SCHOOL PROGRAMS MANAGER
(509) 662-0463
RICHARD.BONNER@SAO.WA.GOV

MINDY CHAMBERS
DIRECTOR OF COMMUNICATIONS
(360) 902-0091
MINDY.CHAMBERS@SAO.WA.GOV

To request public records from the State Auditor's Office:

MARY LEIDER
PUBLIC RECORDS OFFICER
(360) 725-5617
MARY.LEIDER@SAO.WA.GOV

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