REPORT TO THE

UTAH STATE BOARD OF EDUCATION

Report No. 2014-12

REVIEW OF FEDERAL PROGRAMS AT ALIANZA ACADEMY

FISCAL YEARS 2013 AND 2014

November 7, 2014

Audit performed by:
Utah State Board of Education's Internal Auditors

Report 2014-12

November 7, 2014

Utah State Office of Education
Ann White, Title I Director
Glenna Gallo, Special Education Director
250 E 500 S
Salt Lake City, UT 84114

Robert Ralphs
Alianza Academy
420 E South Temple
Suite 200 Salt Lake City, UT 84111

Mrs. White, Mrs. Gallo and Mr. Ralphs:

After a recent on-site Title I monitoring visit at Alianza Academy (Alianza), the Utah State Office of Education (USOE) Title I and Special Education Sections identified concerns regarding the business practices of Alianza. These concerns primarily relate to the use of restricted Title I and Special Education funds by Alianza for unallowable expenses (e.g., supplanting general education costs). This triggered a USOE-conducted complete review of the financial transactions of the Title I and Special Education programs and practices at Alianza. Therefore, it was requested that the Internal Audit Sections (IA) perform a review of the school's federal funding and state special education funding, including the allocation of expenditures to the IDEA, State Special Education, and Title I programs.

Alianza's general ledger file, which covered the period from September 2011 to May 2014, was provided by their financial management company. The management company also provided IA profit/loss statements, by class, for the school years 2012-2013 and 2013-2014 from QuickBooks.

We reviewed each of the reports we received, specifically focusing on the expenditures made from the IDEA, Title I, and State Special Education grants in fiscal years 2013 and 2014. We obtained reports from the QuickBooks accounting ledgers and noted that the school has set up classes in QuickBooks to track revenues and expenditures for programs, such as Title I, Title IIA, IDEA, and State Special Ed.

IA also met with the Alianza Academy executive director and a staff member from Red Apple Financial on August 4, 2014 and August 28, 2014 to examine documentation. Alianza has entered into a contract with Arcadia Education Partners LLC (Aracaida), a company which provides management services for the school. This company is owned by the Executive Director of Alianza and hires and pays many of the professional staff and para-educators at the school.

Special Education- Federal funds (IDEA)

In fiscal year 2013, $108,713 (which appears to be 100% of the IDEA award) was expended in IDEA funding to pay Arcadia. In fiscal year 2014, an additional $30,000 in IDEA grant funds were expended to pay Arcadia. The records of Alianza did not include supporting documentation to verify the allowability of the grant expenditures, the amount, or the periods of service. Based on our conversation with the executive director at Alianza and supporting documentation received from Arcadia, the fiscal year 2013 IDEA funds were used by Arcadia to pay a contracted special education director, a special education case manager, an office manager/registrar, and the school director. The fiscal year 2014 funds were used to pay the same contracted special education director, an office manager/registrar, and the school director.

Based on invoices and other supporting documentation provided from Arcadia's records, the special education director was paid $23,357 on contract for special education services provided in fiscal year 2013 and $12,075 for services provided in fiscal year 2014. Some invoices provided contained details of services provided, but others were undescriptive. Although the documentation is incomplete, it appears that these were allowable expenditures expended for legitimate special education purposes by Arcadia on behalf of the special education program of Alianza.

Additionally, a spreadsheet was provided by the executive director containing salary/wage amounts paid to the other employees mentioned above for special education services. According to the spreadsheet, Arcadia paid the full-time special education case manager approximately $41,400 plus benefits, for a total of $46,202 in fiscal year 2013. The school did provide a contract for this employee which indicated that he was hired as a special education director and summary payroll detail from the Arcadia payroll system for the year, which showed that the employee was indeed paid $41,400 during the fiscal year. Although documentation is incomplete and payroll certifications were not completed for this employee, it appears that this employee was assigned 100% to special education programs during the year, and that 100% of his salary is allowable as an expenditure for IDEA.

Based on the federal regulations surrounding the IDEA program, salaries for principals (school directors) are unallowable under the IDEA program. Secretaries and clerical support personnel may charge a portion of their time to IDEA, limited to the actual time they spent supporting special education. However, the actual time spent must be documented by a personnel activity report (PAR) as required by EDGAR. Neither Alianza nor Arcadia kept PARs for the registrar/office manager mentioned above. Therefore, based on the federal regulations, it appears that the payroll expenditures for both the school director and the registrar are unallowable for the IDEA program

Based on the documentation we reviewed, it appears that $69,559 of the $108,713 payment to Arcadia in FY13 is allowable. However, the remainder of $39,154 appears to be for unallowable activities and is considered questioned. In FY14, it appears that $12,075 of the $30,000 payment to Arcadia is allowable, the remaining $17,925 appears to be for unallowable activities and is considered questioned.

In addition to $30,000 for the Arcadia contract, the school also paid $52,495.22 in fiscal year 2014 for various outside contracted visual speech therapy and other special education services and charged these expenditures to the IDEA program. IA reviewed the contracts for the services provided by these contractors. It appears that these services were for allowable special education activities.

When IA first reviewed the Alianza general ledger in May 2014, the school had requested and received IDEA funding without sufficient expenditures recorded in their accounting system and without proper documentation for the expenditures. Since May, Alianza's management company has assisted the school in allocating additional expenditures to the IDEA program. However, at the time, the school was requesting funds in advance, which is contrary to the IDEA award terms. In total, we question $57,079 in expenditures over the two years.

Special Education- State funds

Alianza recorded State Special Education revenue of $142,990 in fiscal year 2013 and $167,009 in fiscal year 2014.

In fiscal year 2013, Alianza used State Special Education funding of $87,623.10 to pay Arcadia (similar to the IDEA funds above). We requested supporting documentation from Alianza for these expenditures. Arcadia's records show that $36,107.52 was paid in salaries and benefits for a SPED teacher/case manager. The school provided a contract for this employee and summary payroll detail to corroborate this amount. It appears that Arcadia did pay this employee this amount and that these were for legitimate and allowable special education services.

Based on our conversations with the management company, the remainder of this payment to Arcadia was incorrectly charged to State Special Education funds and should have instead come out of unrestricted funds. According to a spreadsheet provided, there were six para-educators paid by Alianza out of unrestricted funds, whose salaries should have been 50% charged to state special education in 2013, but were charged 100% to general education funds. The school has not provided further justification (such as listings of job duties or other documentation) for charging 50% of these employees' time to State Special Education funds. State Special Education regulations state that State Special Education dollars may only be spent for "those elements of cost which can be easily, obviously, and conveniently identified with specific special education activities or programs, as distinguished from those costs incurred for several different activities or programs and whose elements are not readily identifiable with specific special education activities." Without additional documentation and explanation, we are not able to determine that these para-educators provided “specific special education activities” which are distinguishable from other services provided.

Additionally, $52,638.63 of the 2013 State Special Education funding was expended for outside contracted special education and therapy services and $2,728.27 was expended for various special education supplies, curriculum, or travel. As mentioned above, IA reviewed the contracts for these providers and these costs appear to be allowable and appropriate.

In fiscal year 2014, it appears that State Special Education funding was used to pay $111,708.69 in total wages and benefits for two special education case managers and four para-professionals and $148.90 was used for supplies. As of the most recent QuickBooks file received, the school currently has $55,151.41 in unspent State Special Education funding in fiscal year 2014.

Title I - Federal funds

In fiscal year 2013, the school received $110,898 in Title I funding. It appears that all of these funds were used to pay the salaries and benefits of one teacher and five learning coaches and that these employees’ salaries were allocated to the Title I class through quarterly journal entries. IA requested supporting documentation, including payroll certifications, to corroborate the expenditures charged to the Title I program for both fiscal years 2013 and 2014. The school is unsure whether certifications were completed by the previous management company in fiscal year 2013 and was unable to locate or provide any payroll certifications for 2013. The school did provide employment contracts for these employees along with detail from the payroll provider for total wages paid during the year. However, this documentation does not provide justification for allocation of these expenditures to the Title I program. It was noted in the monitoring site visit by USOE Title I staff that employees charged to Title I were being utilized as general classroom teachers. Alianza is a targeted assistance school, which means that allowable salary and benefit expenditures must be specifically associated with Title I activities and must be documented in accordance with federal regulations. Without sufficient supporting documentation or accurate and complete PARs, we are unable to determine if these charges to the Title I program were appropriate or allowable.

As of the most recent 2014 general ledger, it appears that the school has requested and received $61,538 in Title I funds during fiscal year 2014. In the original file received, we did not note any expenditures in the Title I ledgers in fiscal year 2014. However, similar to the IDEA expenditures, the school later allocated expenditures to the program before year end using year-end journal entries. There are now $96,427 of expenditures allocated to the Title I class for fiscal year 2014, with $34,889 of undrawn reimbursements (due to the hold placed on federal funds by the USOE). However, at the time the funds were requested, the school was requesting funds in advance, which is contrary to the Title I award terms, and proper program accounting was not occurring.

We reviewed the $96,427 of expenditures allocated to the Title I program in fiscal year 2014 and noted that all of these expenditures were payroll expenditures for five teachers. According to the school and the management company, these teachers spent a portion of their time working with the Title I program. When IA originally requested payroll certifications for these employees, the school was not able to provide them. Later, the school did provide monthly payroll certifications which were signed by the teachers. However, these certifications were all signed in August of 2014 but were for all months of the school year. Additionally, these payroll certifications contain summary totals of hours devoted to each program for each employee for each month. These totals are not supported by a time sheet or other payroll records substantiating the actual hours worked in each program. The distribution between the federal program and general education funds is the same for all Title I teachers each month. Office of Management and Budget Circular A-87 Appendix B 8.h.(5) states that payroll certifications must document the total actual activity of the employee after-the-fact, be signed by the employee, and be prepared monthly. We also received contracts for these six teachers; however, these contracts were similar to those mentioned above and did not list duties dealing with the Title I program.

Therefore, without further documentation for the payroll expenditures in fiscal years 2013 and 2014, we question all $207,325 of expenditures booked to the program over the two years. Of this $207,325 in expenditures, the school has only currently received reimbursement for $172,436.

Please see the findings and recommendations section of this report for the findings resulting from the above audit procedures.

This report is intended solely for the information and use of the Utah State Board of Education, the Title I and Special Education Sections at the USOE, and Alianza. The report is not intended to be and should not be used by anyone other than these specified parties.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. If you have any questions, please contact me at (801) 538-7813.

Sincerely,

Natalie Grange

Natalie Grange CPA, CFE
Internal Auditor, Utah State Office of Education

cc Diana Peterson, Board Chair
Tim Beagley, State Charter School Board Chair
Marlies Burns, State Director of Charter Schools

Findings and Recommendations

Finding 1 - Insufficient Internal Controls over Federal IDEA and State Special Education Grant Expenditures and Questioned Costs

Based on our review of accounting records, it appears that the school has allocated expenditures to both federal IDEA funds and State Special Education funds to pay a large portion of their contract payments to Arcadia Educational Partners, LLC for management services in both fiscal years 2013 and 2014. The school paid $108,713 in fiscal year 2013 and $30,000 in fiscal year 2014 of their Arcadia contract using IDEA funding. Based on supporting documentation provided (see discussion in the IDEA section of the report above), it appears that $69,559 of the payment in fiscal year 2013 and $12,075 of the payment in fiscal year 2014 are for allowable expenditures. The remaining $39,154 and $17,925 in fiscal years 2013 and 2014, respectively, appear to be unallowable expenditures.

We question the unallowable costs of $39,154 from fiscal year 2013. Interest should be calculated by the USOE, added to the amount of questioned costs, and repaid to the USOE for return to the federal government. Both interest and questioned costs must be paid with unrestricted state dollars and cannot be charged to another federal program.

As of the date of the general ledger information we received, the school had booked expenditures of $82,495.22 during fiscal year 2014 to the IDEA grant. The school has only received $54,402 in IDEA funding during fiscal year 2014 because reimbursements were placed on hold by the special education section when this audit was initiated. We question $17,925 of the payment made to Arcadia in fiscal year 2014, which reduces the amount of allowable expenditures to $64,570.22. Alianza will move $17,925 from their 2014 expenditures in the IDEA program to other unrestricted funds and recalculate their final reimbursement request for fiscal year 2014.

Additionally, $87,623.10 of State Special Education funding was paid to Arcadia in fiscal year 2013. Of this amount, it appears that $36,107.52 was allowable, based on documentation provided by the school. However, the remaining $51,515.68 does not appear to have been spent on specific special education activities and is considered unallowable. See recommendations below.

We have been unable to identify any internal control procedures currently in place at the school to ensure that expenditures allocated to grant programs are reviewed for allowability and compliance with grant guidelines or are supported with sufficient documentation. We have also been unable to identify any internal control procedures that illustrate that any oversight occurs between the school and Arcadia, which is necessary as both organizations are managed by the Director. The Board of the LEA should review and approve all expenditures made to

Arcadia, including a review of supporting documentation for allowability and compliance with uses of funds.

Recommendations:
We recommend that the USOE Special Education Section develop and place Alianza on a corrective action plan to include, at a minimum the resolution of the following:

a. If the school is unable to provide sufficient documentation to justify (to the satisfaction of the USOE Special Education Section) that the reimbursement requests mentioned above were reasonable and appropriate, total IDEA funds of $39,154 and State Special Education funds of $51,515.68 should be questioned and returned to the Federal Government and the state of Utah through the USOE. The USOE Special Education Section may consider developing programmatic reviews to determine the validity of documentation or explanations provided by the LEA. The USOE should also establish a reasonable timeline for this determination and resolution of this issue in their formal corrective action plan. Interest should be calculated from the date of reimbursement until the date of repayment for any unallowable costs and included in the amount repaid to the USOE by the LEA.
b. The USOE Special Education Section has placed all reimbursement requests on hold until the conclusion of this audit. We recommend that the USOE Special Education Section require the school to provide documentation for all future expenditures requested for reimbursement, and this documentation be reviewed and approved prior to reimbursement. We also recommend that this process be part of the corrective action plan until such time the school demonstrates adequate internal controls over IDEA grant expenditures and reimbursement requests.

Finding 2 - Insufficient Internal Controls over Title I Grant Expenditures and Questioned Costs

Various school employees charged time to the Title I program during fiscal year 2013, totaling $110,898. The school was unable to provide any time and effort certifications for these employees to validate the charges made. It appears that time and effort certifications were not completed for school employees charging time to federal programs in 2013, which is required by Federal law and under the terms of the USOE award to the school. Without proper certifications, the payroll expenditures charged to the Title I program cannot be substantiated. As noted above, the school did provide contracts and payroll detail for these employees, but this documentation did not substantiate these payroll costs being charged to the Title I program.

In fiscal year 2014, payroll expenditures of $96,427 were allocated to the Title I program, representing a portion of the costs of five teacher contracts. However, due to the USOE hold on federal funds, the school has only received $61,538 of Title I funds in 2014. The school did not initially have payroll certifications for these expenditures, but was able to create certifications for a subsequent meeting with Internal Audit. However, these certifications were signed in August of 2014 but are for all months of the school year. Additionally, the certifications contain monthly summary totals of hours devoted to each program for each employee and are not supported by a time sheet showing actual hours worked in each program. The distribution between the federal program and general education funds is the same for all teachers each month. OMB Circular A-87 Appendix B 8.h.(5) states that payroll certifications must document the total actual activity of the employee after-the-fact, be signed by the employee, and be prepared monthly. It appears that these certifications do not meet the requirements of this circular.

Furthermore, we have been unable to identify any internal control procedures currently in place to ensure that expenditures allocated to grant programs are reviewed for allowability with grant guidelines or are supported with sufficient documentation. Without sufficient documentation, we are unable to verify that total reimbursement of $172,436 made from the Federal Title I grant funds for 2013 and 2014 is reasonable or allowable. Without further documentation or explanation, these are considered questioned costs which should be repaid to the Federal Government.

Recommendations:

We recommend that the USOE Title I Section develop and place Alianza on a corrective action plan to include, at a minimum, the resolution of the following:

a. If the school is unable to provide sufficient documentation to justify the request of the $172,436 in Title I funding received during the years in question (to the satisfaction of the USOE Title I Section), the total is considered questioned and should be returned to the federal government through the USOE. Documentation could include a contract designating Title I services provided or job duties, PARs, employee time sheets, or other such documentation. The USOE Title I Section may consider developing programmatic reviews to determine the validity of documentation or explanations provided by the LEA and should establish a reasonable timeline for this determination and resolution of this issue in their formal corrective action plan. Interest should be calculated from the date of reimbursement until the date of repayment for any unallowable costs and included in the amount repaid to the USOE by the LEA. Additionally, if the school is unable to provide appropriate documentation for the $34,889 of unreimbursed Title I expenditures from fiscal year 2014, these expenditures should be moved from the Title I class to other unrestricted funds.
b. The USOE Title I Section has placed all reimbursement requests on hold until the conclusion of this audit. We recommend that the USOE Title I Section require the school to provide documentation for all future expenditures requested for reimbursement, and that this documentation be reviewed and approved prior to reimbursement. We also recommend that this process be part of the corrective action plan until such time the school demonstrates adequate internal controls over Title I grant expenditures and reimbursement requests.

Finding 3 - Insufficient Internal Controls over Reimbursement Requests

During fiscal year 2014, the school requested reimbursement for at least $72,000 in Title I and IDEA funds without sufficient supporting documentation or expenditures allocated to each program in their accounting general ledger. We have been unable to identify any internal control procedures currently in place at the LEA to ensure that expenditures allocated to grant programs are reviewed for allowability with grant guidelines or are supported with sufficient documentation prior to requesting federal funds. The management company did allocate sufficient expenditures to these programs before year end closing procedures to ensure that the revenues received were matched with the appropriate expenditures. However, insufficient internal controls have resulted in cash advances, which are a violation of the grant terms, and could result in questioned costs.

Recommendations:
We recommend that the LEA develop and implement internal controls over their financial accounting system to ensure that expenditures are appropriately coded to the proper program when expenditures are made, and that reimbursement requests are supported by sufficient supporting documentation and proper accounting records prior to requesting reimbursement. We also recommend that Title I and Special Education Sections at the USOE determine whether interest should be calculated and repaid to the federal government for the years in question.

Finding 4 - Noncompliance with Required Payroll Certifications for Federal Grants

During our review of the LEA's expenditures for both the Title I and Special Education IDEA grants, we noted that time and effort certifications are not being performed for the majority of the LEA's payroll expenditures charged to federal funds. Payroll certifications should comply with the guidelines set forth in the OMB Circular A-87 Appendix B 8.h. Employees who work solely on a single federal award must have semi-annual certifications to support their salaries and wages. Employees who work on more than one federal award must have PARs. Circular A-87 Appendix B 8.h(5) states that PARs must document the total actual activity of the employee after-the-fact, "be signed by the employee," and the reports "must be prepared at least monthly."

Recommendation:
We recommend that the LEA ensure that time and effort certifications are created for all payroll expenditures charged to federal funds. Payroll certifications should comply with the guidelines set forth in the OMB Circular A-87 Appendix B 8.h.

Finding 5 - Inadequate Internal Controls Over Compliance with State Procurement Code and Supervision of Contracts

During our review, we noted that the LEA entered into an agreement with Arcadia Educational Partners, LLC (Arcadia) in July of 2010 for management and curriculum services. This LLC is owned by the executive director of the LEA. We inquired with the LEA regarding the bidding process or RFP process for this contract, and the LEA was unable to provide documentation of a competitive purchasing process or sole source determination.

The transactions between the LEA and Arcadia do not appear to be arms-length transactions. It appears that the LEA regularly transfers portions of its State and Federal Education funding to Arcadia without language in the contract to specify the cost of the services provided by Arcadia or how these transfers will occur. As public education funds are transferred to this outside entity, transparency and accountability for the funds by the LEA's board and the State Charter School Board is diminished.

We were unable to verify that the Alianza board reviews or approves these transfers. The board's review is a critical management function to ensure the appropriate and allowable uses of funds, accuracy of reporting, and retention of documentation to support the expenditure of public funds.

Recommendation:
We recommend that the State Charter School Board evaluate the LEA's contract with Arcadia and determine whether the relationship established allows appropriate oversight and accountability of the expenditure of public education funds by both the LEA board and the State Charter School Board. We also recommend that the LEA's board review and approve all future transfers of funds between the LEA and Arcadia to ensure they are appropriate and allowable.

Additionally, we recommend that the LEA follow the state procurement code and establish sufficient internal controls to ensure that all existing and future contracts comply with state procurement code, including proper observance and documentation of bidding or RFP practices.