



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Colorado City Unified School District Fiscal Years 2011, 2012 and 2013

Report Number—14- 3

December 17, 2013

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John Huppenthal
Superintendent of
Public Instruction

December 17, 2013

Carol Timpson, Superintendent
Colorado City Unified School District
P.O. Box 309
Colorado City, AZ 86021

Dear Superintendent Timpson,

The Arizona Department of Education Audit Unit has conducted an audit of Colorado City Unified School District (District) Average Daily Membership for Fiscal Years 2011, 2012 and 2013. The purpose of the audit was to address whether the District properly reported student enrollment and attendance and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the District was underfunded due to incorrectly reporting entry and exit dates, incorrectly calculating FTE and not accurately reporting the residency status of three students. As a result of these findings, the District was underfunded \$31,377.41 in Basic State Aid for all three fiscal years. The Notice of Audit Findings and Required Reimbursement issued concurrently with this report becomes final 30 days after issuance, unless the District files an appeal.

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

Sincerely,

A handwritten signature in black ink, appearing to read "RBegnoche".

Ross Begnoche,
Associate Superintendent, Business & Finance

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Colorado City Unified School District (District) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2011 through FY2013.

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, the audit 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.

In addition, ADE will adjust the District's budget capacity if required. ADE School Finance Memorandum 13-011 summarizes the budget capacity adjustment authorized by statute:

A.R.S. §15-915, as amended by Laws 2012, Chapter 357, Section 3, requires the superintendent of public instruction, when it is determined that state aid or budget limits have been calculated in error, within the prior 3 years, to make corrections to budget limits and state aid in the current year. (Hardship application may be approved by the superintendent). Effective for audits initiated during FY 2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

District financial and other information—The District, located in Colorado City, Arizona, maintained one campus during the fiscal years audited for students in preschool, kindergarten programs and grades 1 through 12. The District also had one Arizona Online Instruction (AOI) school in FY2012. Table 1 presents the District's unaudited student, staffing and financial information for FY2011, FY2012 and FY2013.

Table 1

**Colorado City Unified School District
Total Students, Staffing, Revenues and Expenditures
FY2011, FY2012 and FY2013
(Unaudited)**

	FY2011	FY2012	FY2013
Students Enrolled	456	509	N/A ¹
Number of Teachers	25	24	25
Revenue			
Local	\$1,375,317	\$1,495,160	\$2,238,430
County	317,194	291,758	359,484
State	2,031,815	1,783,335	1,738,806
Federal	1,920,026	1,788,584	0
Total Revenues	\$5,644,351	\$5,358,838	\$4,336,720
Total Expenditures	\$5,404,499	\$5,122,725	\$3,272,952

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2011 and FY2012; District Revised Annual Financial Report for FY2013.

¹ Annual Report of the Arizona Superintendent of Public Instruction was not completed for FY2013 at the time this audit was issued.

SCOPE AND METHODOLOGY

The audit focused on whether the District accurately reported its enrollment data to ADE and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Records (USFR) and its own policies and procedures for FY2011, FY2012 and FY2013.

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

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

- **Enrollment Data Errors**—To determine whether the District reported the correct enrollment data to ADE, auditors reviewed 277 student cumulative files and attendance profiles. The first and last days of attendance were then compared to the enrollment and withdrawal dates that were reported to SAIS. When discrepancies were identified, auditors recalculated the ADM for each student based on the actual enrollment period.
- **FTE Data Errors**—To determine whether the District reported the correct student FTE to ADE, auditors reviewed 277 student attendance profiles. When discrepancies were identified for FTE issues, auditors recalculated the ADM for these students based on the actual FTE.
- **Residency Status Errors**—To determine whether the District reported students' proper residency status to ADE, auditors obtained a list of 204 students who were listed as Utah residents during the fiscal years audited and compared this list to students funded as Arizona residents. When discrepancies were identified, auditors recalculated the ADM for each student based on the residency status.

The Audit Unit expresses its appreciation to the District's administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN UNDERPAYMENT OF \$31,377.41

The District did not accurately report some student data to ADE for FY2011, FY2012 and FY2013. Specifically, auditors found inaccurate enrollment entry and exit dates for 54 students, inaccurate FTE status for six students and inaccurate residency status for three students. As a result, the District's ADM was understated by a total of 3.387 for FY2011, FY2012 and FY2013, and the District received a net underpayment of \$31,377.41 in Basic State Aid.

District Did Not Accurately Report Enrollment Entry and Exit Dates

The District did not accurately report enrollment entry and exit dates for 54 students. According to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. Additionally, ADE Guideline GE-17¹ states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance.

However, the District did not always adhere to these requirements. For 54 students, the District did not report the correct enrollment data to ADE. This resulted in a net understatement of the District's ADM by 4.400. Specifically:

- 44 students had either an incorrect entry date or withdrawal date that was reported to SAIS, which resulted in the District's ADM being understated by 1.315.
- 9 students were not reported to SAIS; however, the attendance documentation listed the student as being enrolled and attending the District, which resulted in the District's ADM being understated by 3.095. In addition, one of these students was enrolled in special education, and so had an additional weighted ADM of 4.421 that was understated.
- 1 student did not have any attendance documentation that indicated they ever attended the District, which resulted in the District's ADM being overstated by 0.01.

If the District had properly reconciled its data to SAIS throughout the school year, these enrollment errors would likely have been identified, and the District would not have been underfunded because of these errors. In the future, the District should review the reports produced by SAIS and reconcile them to the District's SMS data to identify any discrepancies.

¹ ADE Guideline GE-17 states: "For the purposes of determining Average Daily Membership (ADM) for a given school year at a given public school pursuant to ARS § 15-901 (A)(2), the first day of membership for continuing or pre-enrolled students, shall be defined as either the first day a student physically attends school or the first day that classroom instruction is offered, provided that such students physically attend school within the first ten school days. For all other students, the first day of membership shall be defined as the first day a student physically attends school."

District Did Not Accurately Report FTE Status

The District did not accurately report the FTE status to ADE for 6 students. According to A.R.S. § 15-901 and ADE Guidelines and Procedures EX-18 (EX-18), a high school student must be scheduled for at least 720 instructional hours during the year and at least 20 hours per week for the student to be reported as one FTE².

However, the District did not follow statute and ADE guidelines when calculating and reporting student FTE for 6 students. This resulted in a net overstatement of the District's ADM by 0.288. Specifically:

- 2 students were reported with a 0.75 FTE; however, the attendance documentation showed that the students were attending the District full time which resulted in the District's ADM being understated by 0.50.
- 4 students were reported with a 1.0 FTE; however, the attendance documentation showed that the students were attending the District part time, which resulted in the District's ADM being overstated by 0.788.

District Did Not Accurately Report Residency Status For Three Students

The District did not accurately report residency status for 3 students. A.R.S. § 15-823 (J) states that "a school district or a charter school shall not include pupils who are not residents of this state in the district's or charter school's student count and shall not obtain state funding for those pupils." However, three students were improperly reported to SAIS as Arizona residents during a semester when they lived in Utah. This resulted in the District's ADM being overstated by 0.725.

The District Was Underfunded \$31,377.41 in FY2011, FY2012 and FY2013

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate data reported to ADE for FY2011, FY2012 and FY2013. The data errors made by the District resulted in its ADM being understated by 3.387 for the three fiscal years audited. This resulted in a net total underfunding of \$31,377.41, which ADE needs to repay to the District.

² Pursuant to A.R.S. § 15-901, a full time student (1.0 FTE) in grades 9 through 12 must be scheduled for and attending at least 720 hours of instruction and at least 20 hours per week, a 0.75 FTE student must be scheduled for at least 540 hours of instruction and at least 15 hours per week, a 0.50 FTE student must be scheduled for at least 360 hours of instruction and at least 10 hours per week and a 0.25 FTE student must be scheduled for at least 180 hours of instruction and at least 5 hours per week.

The District's ADM was understated by 3.387 – As shown in Table 2, entry and exit data errors, FTE status errors and residency status errors resulted in a net ADM understatement of 3.387 for FY2011, FY2012 and FY2013.

Table 2

**Colorado City Unified School District
ADM Adjustments Due to Data Errors
FY2011, FY2012 and FY2013**

	2011	2012	2013	Total
Incorrect entry and exit data	(1.193)	(1.967)	(1.240)	(4.400)
Incorrect FTE status	0.288	0	0	0.288
Incorrect residency status	0	0	0.725	0.725
Total	(0.905)	(1.967)	(0.515)	(3.387)

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

The District was underfunded by \$31,377.41 – As a result of its ADM being understated by 3.387, the District's Basic State Aid was underfunded by \$34,372.74. However, adjusting the District's ADM by these amounts also resulted in a funding decrease of \$2,995.33, due to the statutory growth formula adjustment. These calculations resulted in a net total underfunding of \$31,377.41, which ADE needs to repay to the District. Table 3 shows the ADM and funding adjustments required for the District for FY2011, FY2012 and FY2013.

Table 3

**Colorado City Unified School District
ADM and Funding Adjustments Due to
Enrollment Data Errors
FY2011, FY2012 and FY2013**

	ADM Adjustment	Basic State Aid Adjustment	Growth Adjustment	Total Funding Adjustment
2011	(0.905)	\$ (4,514.22)	\$12,982.25	\$ 8,468.03
2012	(1.967)	\$(26,530.00)	\$(9,986.92)	\$(36,516.92)
2013	(0.515)	\$ (3,328.52)	N/A	\$ (3,328.52)
Total	(3.387)	\$(34,372.74)	\$ 2,995.33	\$(31,377.41)

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

Recommendations:

1. ADE needs to repay the District \$31,377.41 in underfunding due to incorrectly reported data.
2. The District should ensure it complies with A.R.S. § 15-901 and ADE Guideline GE-17 when reporting entry and exit dates to SAIS.
3. The District should ensure it complies with A.R.S. § 15-901 and ADE Guideline EX-18 when calculating and reporting FTE status.
4. The District should ensure it complies with A.R.S. § 15-823 when determining and reporting residency status of students.
5. The District should reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.

ADM AND FUNDING ADJUSTMENTS

Statutes require that ADE makes corrections for audit findings to both budget capacity and state aid. A.R.S. § 15-915, authorizes and provides direction for adjusting budget capacity and state aid. ADE's School Finance Unit's Memo 13-011 informs LEAs of these statutory requirements:

A.R.S. §15-915, as amended by Laws 2012, Chapter 357, Section 3, requires the superintendent of public instruction, when it is determined that state aid or budget limits have been calculated in error, within the prior 3 years, to make corrections to budget limits and state aid in the current year. (Hardship application may be approved by the superintendent). Effective for audits initiated during FY 2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

Budget capacity adjustment required—The District must adjust its budget capacity for the three years audited. Budget capacity adjustment calculations for the District will be made by ADE once the audit is finalized.

Basic State Aid adjustment of \$31,377.41 required—Auditors identified an overall funding increase of \$31,377.41 for the three fiscal years audited as a result of inaccurate data reported to SAIS for Basic State Aid.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2011, FY2012 and FY2013.

Table 4

**Colorado City Unified School District
ADM and Funding Adjustments Required for
FY2011, FY2012 and FY2013**

	FY2011	FY2012	FY2013	Total
ADM Adjustment	(0.905)	(1.967)	(0.515)	(3.387)
Basic State Aid Adjustment	<u>\$(4,514.22)</u>	<u>\$(26,530.00)</u>	<u>\$(3,328.52)</u>	<u>\$(34,372.74)</u>
Growth Adjustment	<u>\$12,982.25</u>	<u>\$ (9,986.92)</u>	<u>N/A</u>	<u>\$ 2,995.33</u>
Total Funding Adjustment	<u>\$ 8,468.03</u>	<u>\$(36,516.92)</u>	<u>\$(3,328.52)</u>	<u>\$(31,377.41)</u>

Source: Auditor analysis of SAIS and District student and financial data for FY2011, FY2012 and FY2013.