



# Arizona Department of Education

The Audit Unit  
1535 W. Jefferson St., Bin 19  
Phoenix, Arizona 85007  
602-364-2097

## Average Daily Membership Audit Report Kayenta Unified School District Fiscal Years 2010, 2011 and 2012

Report Number—14-1

July 11, 2013

**CONTACTING  
THE AUDIT UNIT**

Arthur E. Heikkila, Chief Auditor

Phone: (602) 364-2097  
Email: [Arthur.Heikkila@azed.gov](mailto:Arthur.Heikkila@azed.gov)  
Fax: (602) 542-2734  
Mail: 1535 W. Jefferson St., Bin 19  
Phoenix, AZ 85007-3209

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Attn: Linda Norgren  
1535 W. Jefferson Street, Bin 19  
Phoenix, AZ 85007-3209  
Phone: (602) 364-4063

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State of Arizona  
Department of Education  
The Audit Unit  
1535 W. Jefferson St, Bin 19 • Phoenix, AZ 85007  
Phone (602) 364-2097 Fax (602) 542-2734

John Huppenthal  
Superintendent of  
Public Instruction

July 11, 2013

Harry Martin, Superintendent  
Kayenta Unified School District  
P.O. Box 337  
Kayenta, AZ 86033

Dear Superintendent Martin:

The Arizona Department of Education Audit Unit has conducted an Average Daily Membership audit of the Kayenta Unified School District (District) for Fiscal Years 2010, 2011 and 2012. 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 enrolled and was inappropriately funded for 155 non-resident students for the three fiscal years audited. As a result, the District was overfunded Basic State Aid by \$634,830.65 which must be repaid by the District to the Arizona Department of Education.

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

Sincerely,

Arthur E. Heikkila  
Chief Auditor

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# INTRODUCTION AND BACKGROUND

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The Arizona Department of Education (ADE) has conducted an Average Daily Membership (ADM) audit of the Kayenta Unified School District (District) pursuant to the provisions of Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District accurately reported enrollment data to ADE for FY2010, FY2011 and 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 the audit finds 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 (Superintendent) regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915.

***Opportunity to appeal the Superintendent's determination***—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 Notice 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 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 is located in Kayenta, Arizona, and includes one elementary school, one middle school and one high school. The District offers education for preschool and kindergarten programs as well as for grades 1 through 12. In FY2012, the District had a total of 2,057 students enrolled at its schools. Table 1 presents the District's student, staffing and financial information for FY2010, FY2011 and FY2012.

**Table 1**  
**Kayenta Unified School District**  
**Students, Staffing, Revenues and Expenditures**  
**FY2010, FY2011 and FY2012**  
**(Unaudited)**

	FY2010	FY2011	FY2012
<b>Students Enrolled</b>	<b>2,114</b>	<b>2,118</b>	<b>2,057</b>
<b>Total Teachers</b>	145	129	129
<b>Revenue</b>			
Local	\$ 3,299,787	\$ 2,884,149	\$ 2,650,878
County	\$ 425,938	\$ 510,819	\$ 663,521
State	\$10,417,544	\$10,441,200	\$10,519,373
Federal	\$19,575,062	\$29,094,970	\$16,461,370
<b>Total Revenues</b>	<b>\$33,718,331</b>	<b>\$42,931,138</b>	<b>\$30,295,142</b>
<b>Total Expenditures</b>	<b>\$48,955,045</b>	<b>\$26,787,294</b>	<b>\$26,038,490</b>

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

## SCOPE AND METHODOLOGY

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The audit focused on whether the District accurately reported enrollment data to ADE and received the correct amount of Basic State Aid in accordance with statutes for FY2010, FY2011 and FY2012. To conduct this audit, auditors used a variety of methods, including examining District and SAIS records for enrollment. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff.

To determine if students who were claimed for Basic State Aid were residents of Arizona, auditors obtained from the District for FY2010, FY2011 and FY2012 a list of students who were determined by the District to potentially be non-residents. Auditors then reviewed the cumulative files for each of these students. Based on this analysis, auditors determined each student's residency status during each fiscal year audited. Auditors then calculated the funding adjustments associated with these students.

The Audit Unit expresses its appreciation to the Kayenta Unified School District's administration and staff members for their cooperation and assistance throughout the audit.

# **FINDING 1: THE DISTRICT INAPPROPRIATELY ENROLLED AND RECEIVED BASIC STATE AID FOR NON-RESIDENT STUDENTS**

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The District improperly enrolled and received funding for 155 students who were not residents of Arizona during each of the three fiscal years audited. As a result, the District's ADM was overstated by a total of 136.885 for FY2010, FY2011 and FY2012. This overstatement of reported ADM resulted in the District being overfunded by \$634,830.65 which must be repaid to ADE. In the future, the District must enroll for funding only students residing in Arizona. The District may enroll non-resident students by following the processes provided in A.R.S. § 15-823 that require the District to charge a reasonable tuition or utilize the process to allow non-resident reservation students to attend school.

## **The District Inappropriately Enrolled Non-Resident Students During the Three Years Audited**

The District inappropriately enrolled and received funding for non-resident students during the three fiscal years audited. Auditors used a variety of methods to determine that 155 students were non-residents during FY2010, FY2011 and FY2012. The total overreported non-resident student ADM for the three fiscal years was 136.885.

*155 students found to be non-residents for the three years audited*—Auditors determined that 155 students were non-residents of Arizona during the three fiscal years audited. To determine whether the District enrolled and received funding for non-resident students during FY2010, FY2011 and FY2012, auditors performed the following analyses:

- First, the District provided a list of students from the District's student data system with addresses listed as being in Utah for each of the three fiscal years audited.
- Second, the District provided a list of all students who were on bus routes that went near the Utah state line for FY2010, FY2011 and FY2012. Auditors also obtained a list detailing which students the bus drivers identified as possibly living in Utah.
- Third, based on the above information, auditors obtained and reviewed 209 student files to determine if the student was a resident of Arizona during each of the three fiscal years audited. The student files contained documents that indicated the residence of the student, including enrollment forms and emergency contact forms. Using the addresses in the District's system and the documents found in the students' files, auditors determined if the student resided in Arizona or Utah for each of the fiscal years audited.

*ADM for non-resident students was overreported by 136.885*—As a result of non-resident students being enrolled in each of the three fiscal years audited, the District's ADM was overreported by 136.885.

As shown in Table 2, auditors reviewed a total of 209 files for FY2010, FY2011 and FY2012, and found 155 of these students were not residents of Arizona. Additionally, auditors determined that 54 of the students identified by the District's system as Utah residents were actually determined to be Arizona residents. As a result of improperly enrolling 155 students as residents, the District's ADM was overstated by 136.885 for the three fiscal years audited.

**Table 2**

**Kayenta Unified District  
Total Students, Non-Resident Students and ADM Adjustment  
FY2010, FY2011 and FY2012**

	FY2010	FY2011	FY2012	Total
Total Students Reviewed	82	67	60	209
Total Students determined to be non-residents	61	49	45	155
ADM Adjustment	<u>54.405</u>	<u>43.690</u>	<u>38.790</u>	<u>136.885</u>

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

**The District Should Follow State Law to Determine Funding for Non-Resident Students**

The District must comply with Arizona law and use the options provided in statute that address educating non-resident 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, A.R.S. § 15-823(A) also allows the District to enroll children who are non-residents of Arizona as long as it charges a reasonable tuition fixed by the governing board. In addition, statutes were written specifically to address how students living within the Navajo Reservation but outside Arizona may legally attend Arizona schools without paying tuition. A.R.S. § 15-823(F) states that:

*“The governing board may admit children who are residents of the United States, but who are nonresidents of this state, without payment of tuition if all of the following conditions exist:*

- 1. The child is a member of a federally recognized Indian tribe.*
- 2. The child resides on Indian lands that are under the jurisdiction of the tribe of which the child is a member.*
- 3. The area in the boundaries of the reservation where the child resides is located both in this state and in another state of the United States.*
- 4. The governing board enters into an intergovernmental agreement with the governing board of the school district in another state in which the nonresident child resides. The intergovernmental agreement shall specify the number of nonresident children admitted in this state and the number of resident children that are admitted by the governing board in another state.”*

This statute allows the District to enroll non-resident students without charging tuition as long as there is an IGA in place. However, for the years audited, no IGA had been implemented with school districts in the bordering state of Utah.

According to the District, its staff were unaware that enrolling non-resident students without payment of tuition or an IGA in place was contrary to state law. While reviewing its own policies, District management and staff determined that it had not been following statutory residency requirements. To help resolve this problem, the District adopted a policy effective for FY2013 to collect residency documentation to ensure that students who enroll in the District are residents of Arizona. Additionally, the District sent a letter to all parents notifying them that non-resident students would not be accepted into District schools. In the future, the District should ensure that it follows statute when enrolling non-resident students.

### **The District Was Overfunded By \$634,830.65**

As a result of non-resident students being enrolled in each of the three fiscal years audited, the District received an overfunding of Basic State Aid. As Table 3 shows, the District was overfunded by \$252,870.52 in FY2010, \$197,355.41 in FY2011 and \$184,604.72 in FY2012. Overall, the District was overfunded by \$634,830.65 for the three fiscal years audited, which ADE must recoup from the District. In addition, the District must reduce its budget capacity as described in the Budget Capacity and Basic State Aid Adjustments section (see page 8).

**Table 3**

**Kayenta Unified School District  
ADM Adjustment and Basic State Aid Adjustment for Non-Resident Students  
FY2010, FY2011 and FY2012**

	<b>ADM Adjustment</b>	<b>Basic State Aid Adjustment</b>
FY2010	54.405	\$252,870.52
FY2011	43.690	\$197,355.41
FY2012	38.790	\$184,604.72
<b>Total</b>	<b>136.885</b>	<b>\$634,830.65</b>

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

## **Recommendations:**

1. ADE must recoup \$634,830.65 in Basic State Aid that was overfunded to the District for non-resident students.
2. The District must reduce its budget capacity as described in the Budget Capacity and Basic State Aid Adjustments section (see page 8).
3. The District must ensure that it only reports students who are residents of Arizona for Basic State Aid.
4. The District should ensure that it follows statute when enrolling non-resident students.

# BUDGET CAPACITY AND BASIC STATE AID ADJUSTMENTS

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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 final.

**Basic State Aid adjustment of \$634,830.65 required**—Auditors identified an overall funding reduction of \$634,830.65 for the three fiscal years audited for non-resident students improperly enrolled and claimed for Basic State Aid.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2010, FY2011 and FY2012.

**Table 4**

**Kayenta Unified School District  
ADM and Basic State Aid Adjustments Required for Non-Resident Students  
FY2010, FY2011 and FY2012**

	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>Total Adjustment</b>
ADM Adjustment	54.405	43.690	38.790	136.885
Basic State Aid Adjustment	\$252,870.52	\$197,355.41	\$184,604.72	\$634,830.65

Source: Auditor analysis of ADE and District data for FY2010, FY2011 and FY2012.