



Arizona Department of Education

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

Average Daily Membership Audit Report Payson Unified School District Fiscal Years 2008, 2009 and 2010

Report Number—12-1

February 17, 2012

**CONTACTING
THE AUDIT UNIT**

Arthur E. Heikkila, Chief Auditor

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

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



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

February 17, 2012

Casey O'Brien, Superintendent
Payson Unified School District
P.O. Box 919
Payson, AZ 85541

Dear Superintendent O'Brien:

The Arizona Department of Education Audit Unit has conducted an audit of the Payson Unified School District's Average Daily Membership for Fiscal Years 2008, 2009 and 2010. The purpose of the audit was to address whether the District properly reported student enrollment and attendance, offered students sufficient statutorily-mandated instructional hours and to determine if it received the correct amount of Basic State Aid.

The audit found that the District failed to provide sufficient instructional hours, reported some inaccurate data to ADE and had errors with the District-sponsored charter school. As a result of these findings, the District was overfunded \$419,164.47 for the three fiscal years. The audit becomes final 30 days after issuance, unless the District files an appeal.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur E. Heikkila", with a long horizontal line extending to the right.

Arthur E. Heikkila
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) has conducted an Average Daily Membership (ADM) audit of the Payson Unified School District (the District) pursuant to the provisions of A.R.S. § 15-239. This audit focused on whether the District accurately reported enrollment and attendance data to ADE and whether sufficient instructional hours were provided in FY2008, FY2009 and FY2010.

Average Daily Membership audit conducted—ADM audits help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. Districts receive Basic State Aid based on several factors related to student attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE's Student Accountability Information System (SAIS). ADE then processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

Audit and appeal processes—The ADM audit process determines whether payments were correct or if an adjustment is needed pursuant to A.R.S. § 15-915, and provides for an appeal process if the school district or charter school disagrees with the audit findings. ADM audits compare the school district's or charter school's information reported to SAIS to information found on the original records kept at the school. If the audit finds that the school district's or charter school's reported information does not match the original documentation, the audit will identify and report the funding adjustment needed to Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings.

The audit is an appealable action. A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the audit findings the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school and ADE may reach agreement in an informal settlement conference. If not, the appeal will be adjudicated by the Office of Administrative Hearings. When the audit is finally settled or adjudicated, if ADE has determined that a school district or charter school received excess 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.

District financial and other information—The District, located in Payson, Arizona, had three elementary schools, one middle school, one high school and one District-sponsored charter school during the fiscal years audited. The District offers education for preschool and kindergarten programs as well as for grades 1 through 12. In FY2010, the District had a total of 2,655 students enrolled at its schools. Table 1 (see page 2) presents the District's student, staffing and financial information for FY2008, FY2009 and FY2010.

Table 1
Payson Unified School District
Students, Staffing, Revenues and Expenditures
FY2008, FY2009 and FY2010
(Unaudited)

	FY2008	FY2009	FY2010
Students Enrolled	2,743	2,676	2,655
Total Teachers	164	155	137
Revenue			
Local	\$12,678,343	\$14,361,712	\$10,720,030
County	\$ 0	\$ 0	\$ 326,163
State	\$ 8,598,563	\$ 7,990,210	\$ 6,626,164
Federal	\$ 1,846,786	\$ 2,678,890	\$ 3,444,134
Total Revenues	\$23,123,692	\$25,030,812	\$21,116,491
Total Expenditures	\$23,732,916	\$24,529,248	\$23,603,750

Source: "Annual Report of the Arizona Superintendent of Public Instruction," for FY2008, FY2009 and FY2010

SCOPE AND METHODOLOGY

The audit focused on whether the District provided sufficient instructional hours to students, accurately reported enrollment and attendance data to ADE, reported accurate data for the District-sponsored charter school and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Reporting (USFR) and its own policies and procedures. The audit reviewed data for FY2008, FY2009 and FY2010.

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 areas:

- **Instructional Hours Requirement**—To determine whether the District met the statutory instructional hours requirement for each grade, auditors obtained academic calendars and bell schedules for FY2008, FY2009 and FY2010. Auditors randomly sampled and tested elementary and high school grades, and tested grades 6 through 8 to determine if sufficient instructional hours were provided. In addition, auditors interviewed District and school personnel to determine the schedules for the years audited. Auditors then compared the calendars and bell schedules to the requirements mandated by statute.
- **Student Reporting Errors**—To determine whether the District received the correct amount of Basic State Aid from ADE, auditors reviewed each student's attendance and enrollment information for each fiscal year audited. For 95 of the students, auditors looked at the original attendance documentation and for 92 of the students auditors looked at the original enrollment and withdrawal forms. Auditors obtained this information from the District which was then compared to the data in SAIS.
- **Charter School Errors**—To determine if the information reported to ADE for the District-sponsored charter school was accurate, auditors obtained documentation and interviewed school personnel at the charter school. Auditors compared the instructional hours provided to the statutory requirements. Auditors also reviewed attendance procedures and original attendance documentation at the charter school.

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

FINDING 1: THE DISTRICT WAS OVERPAID MORE THAN \$450,000 AS A RESULT OF NOT PROVIDING ENOUGH INSTRUCTIONAL HOURS

The District did not provide at least 1,068 hours, the statutorily-required minimum number of instructional hours, to the 7th and 8th grade students for the three fiscal years audited. This occurred because the District incorrectly counted study hall time as instructional hours at one school. As a result, the District was overpaid more than \$450,000 in Basic State Aid. Pursuant to A.R.S. § 15-915, ADE must recover these monies from the District, and the District needs to ensure it provides students with at least the minimum number of statutorily-required instructional hours.

7th and 8th Grade Students Were Not Provided Sufficient Instructional Hours

Although all school districts are required by statute to provide a minimum number of instructional hours to students, the District did not meet this requirement for all of its students. Auditors obtained and analyzed the District's bell schedules and calendars for each of the fiscal years audited then compared them to the statutory requirements. A.R.S. § 15-901 requires that public schools provide at least 1,068 instructional hours for all 7th and 8th grade students during the audited fiscal years. However, as shown in Table 2, the District did not meet this requirement and only provided between 962 and 980 hours of the 1,068 required hours during the three fiscal years audited.¹

Table 2

**Payson Unified School District
Instructional Hours Required, Provided
and Percentage Provided for 7th and 8th Grade
FY2008, FY2009 and FY2010**

Fiscal Year	Actual Instructional Hours Provided	Instructional Hours Required	Percentage Of Compliance
1 st Lunch			
FY2008	965	1,068	90.36%
FY2009	962	1,068	90.07%
FY2010	969	1,068	90.73%
2 nd Lunch			
FY2008	974	1,068	91.20%
FY2009	971	1,068	90.92%
FY2010	980	1,068	91.76%

Source: Analysis of the District bell schedules and the A.R.S. § 15-901 minimum instructional hours requirements.

¹ Auditors determined that the District provided all other grade levels tested with at least the minimum number of instructional hours required by statute, except for the District-sponsored charter school (see Finding 3, pages 11 through 14).

Study Hall Not Considered Instructional Time

Insufficient instructional hours resulted from a study hall that could not be considered instructional time. Auditors found that during each of the fiscal years audited, the middle school contained a period called “ACHIEVE” that the District claimed was a “guided study hall”. ADE Guidelines and Procedures GE-18 prohibit study halls from consideration as instructional time. Additionally, auditors consulted an ADE curriculum expert who agrees with the District that the “ACHIEVE” period is a study hall, and therefore cannot be considered instructional time based on the documentation provided.

District considered “ACHIEVE” period a study hall—The District offered its 7th and 8th grade middle school students a period called “ACHIEVE” which lasted 52 minutes in FY2008 and FY2009 and 42 minutes in FY2010. According to school staff interviewed during the audit, this period was considered a study hall. In addition, the District-produced annual pamphlet described the period as a “guided study hall provided daily for every student.”

In response to a request from auditors for additional information about what activities occurred during the “ACHIEVE” period, the District provided a packet of information including letters from several teachers and staff. However, this additional information failed to provide evidence that the period did not constitute a study hall, and the letters contained inconsistent descriptions of the activities that took place during this period each day. For example, the letters described activities that included “independent reading”, “working on assignments for other classes”, “making up work missed when students were absent or on field trips”, “counseling”, “re-testing”, “tutoring”, “studying in groups” or “getting help with homework”. However, none of these activities constitutes instructional time.

In addition, the District provided the following information to auditors regarding “ACHIEVE”:

“ACHIEVE class. The 6th period ACHIEVE class is a time for you to do homework, get extra help from a teacher, and study. It is an opportunity that many students are already using effectively to make sure they are earning good grades. Use this time to your advantage!”

ADE Guidelines prohibit study halls from inclusion as instructional time—According to ADE Guidelines, “ACHIEVE” cannot be counted as instructional hours. ADE Guidelines and Procedures GE-18 (GE-18) states study hall periods such as this one are specifically excluded from inclusion from the calculation of instructional time.²

ADE curriculum expert agrees ACHIEVE is a study hall—In addition to GE-18, auditors consulted with John Stollar, Chief of Programs and Policy with ADE. As an ADE curriculum subject-matter expert, Mr. Stollar agreed with the District and ADE auditors that the “ACHIEVE” period is a study hall, and therefore should not be counted as instructional time. Mr. Stollar stated, “An instructional period is defined by a teacher, teaching to an objective, taken from the Arizona State Standards and focused on a

² GE-18 states “*Instructional hours do not include periods of the day in which an instructional program or course of study is not being offered.* If the period of the day is not included in the State Board of Education’s approved minimum course of study, then that period of the day is not instructional time.” (original emphasis included)

specific lesson, using curricular materials adopted by the School Board and assessed for student performance.” Based on the information provided by the District in response to auditor’s requests, the District did not provide specific lesson plans that met defined objectives. Additionally, the documentation did not contain specific lessons or the use of curricular materials used by the ACHIEVE teachers to assess student performance. Rather, students used this period for a variety of non-instructional activities as stated previously.

Mr. Stollar went on to state that without a grade based on an assessment of actual student performance from an academic perspective, the ACHIEVE period cannot be considered instructional time. Such an assessment must be based on the objectives and lesson plans, and be used to assess progress towards completion of the objectives or lesson plans in order to progress the student academically. Although the ACHIEVE period was graded, the grades did not reflect actual student performance towards completion of objectives or lesson plans. Based on the information provided to auditors by the District, students were assessed on five non-instructional factors listed below that did not take into consideration any academic functions:

1. Have Book and Read for 20 min
2. Agenda out and filled out
3. Participation
4. On-Task
5. Behavior.

Finally, Mr. Stollar stated that instructional periods must contain academic learning time, which is the ratio between the amount of time a student is engaged in learning activities versus the total allotted time. Since the District failed to provide the objectives, lesson plans and curricular materials, auditors could not determine the academic learning time associated with this period. Therefore, this period cannot be considered instructional time.

The District Limited Educational Opportunities for Some Students

Since the District provided fewer instructional hours than required by statute for its 7th and 8th grade students, it inappropriately limited the amount of some of its students’ education. Assuming that more time spent in the classroom results in a better education, some of the District’s students received less educational opportunities because the District did not provide all of its students with the statutorily-required minimum number of instructional hours.

The District was Overpaid \$451,652.84 in Basic State Aid

As a result of providing insufficient instructional hours for 7th and 8th grade students during the fiscal years audited, the District’s ADM was overstated, resulting in the District being overpaid Basic State Aid

by \$451,652.84.³ As shown in Table 3, for the three fiscal years audited, the District's insufficient instructional hours resulted in ADM being overstated by a total of 100.87, requiring the District's Basic State Aid to be reduced by \$451,652.84.

Table 3

**Payson Unified School District
ADM Overstatement and Funding Adjustment Due to
Insufficient Instructional Hours for 7th and 8th Grade Students
FY2008, FY2009 and FY2010**

	FY2008	FY2009	FY2010	Total
Reported ADM	414.40	364.99	316.69	1,096.08
Audited ADM	375.99	330.39	288.83	995.21
ADM Overstated	38.41	34.60	27.86	100.87
Funding Adjustment	\$181,059.13	\$139,553.34	\$131,040.37	\$451,652.84

Source: Auditor analysis of SAIS and District student data for FY2008, FY2009 and FY2010.

Pursuant to A.R.S. § 15-915, the ADE must recover \$451,652.84 from the District. Additionally, the District needs to ensure that it provides all students with at least the statutorily-required minimum number of instructional hours pursuant to ADE guidelines and state statutes.

Recommendations:

1. ADE needs to recoup \$451,652.84 in overpaid Basic State Aid from the District.
2. The District should ensure that it provides all students with at least the statutorily-required minimum number of instructional hours.

³ GE-18 provides directions for determining the ADM adjustment based on insufficient instructional hours. According to the Guideline, "If school districts or charter holders are not in compliance with the requirements for annual classroom instruction hours pursuant to A.R.S. §§15-901(A)(2)(a), (b) and (c), then annual equalization funding will be prorated accordingly. Example: A school with deficient annual hours will have their reported membership decreased based on the actual amount of instruction hours provided compared to the required annual hours. For instance, a school that provides 90 percent of the required hours will have the reported membership days reduced by 10 percent, thus ADM will be reduced by 10 percent. Annual equalization will be based on this revised ADM."

FINDING 2: THE DISTRICT WAS UNDERFUNDED MORE THAN \$58,000 DUE TO INACCURATE DATA REPORTING

The District did not accurately report some student data to ADE for the three fiscal years audited. Specifically, auditors found that the District underreported ADM for preschool programs through 8th grade, and overreported ADM for grades 9 through 12. In addition, the District did not calculate the Full Time Equivalency (FTE) for some high school students correctly. Due to the inaccurate ADM reported to ADE, the District was underfunded \$58,696.87 of Basic State Aid for the three fiscal years audited.

Errors in Student Data Reported Resulted in Inaccurate ADM

The audit found that the District's data contained numerous errors in student data, which resulted in inaccurate ADM calculations. Errors resulted in both overstated and understated ADM for reporting and funding purposes.

District staff incorrectly reported some students to ADE—One reason for the overstatement was due to the District claiming enrollment for students who had withdrawn from the District. Although the District eventually removed these students from the District's enrollment and attendance system, the District did not submit these changes to ADE and thus continued to inappropriately receive funding for these students.

Additionally, two students did not show up within the first ten days of school, but were reported to ADE as having been enrolled on the first day of school. However, ADE Guideline and Procedure GE-17 (GE-17) states that if a continuing or pre-enrolled student does not physically attend the school within the first ten school days, the enrollment date should be the first day of actual attendance. Since these two students did not attend the District within the first ten days, they should have been reported with an enrollment date equal to their first day of actual attendance.

In contrast, the District also had several students who attended the District but were not reported to ADE. Because the District did not ensure that these students were in SAIS, these students were not included in the District's funded ADM. This resulted in the District's ADM being understated. In the future, the District should ensure that the student level data it reports to ADE is accurate.

Errors resulted in incorrect ADM calculations for the District—As a result of these errors, the District's overall ADM was understated for students in preschool programs through 8th grade and was overstated for the students in grades 9 through 12.⁴ As shown in Table 4 (see page 9), student reporting errors resulted in a net ADM understatement of 13.74 for students in preschool programs through 8th grade, with a net overstatement of 19.56 for students in grades 9 through 12.

⁴ This does not include students who were attending the District-sponsored charter school. For more information about the charter school, see Finding 3 pages 11-14.

Table 4

**Payson Unified School District
ADM Adjustments Due to Student Reporting Errors
FY2008, FY2009 and FY2010**

	FY2008	FY2009	FY2010	Total
P-8				
Funded ADM	1,737.57	1,722.05	1,689.20	5,148.82
Audited ADM	1,737.50	1,734.23	1,690.83	5,162.56
ADM Adjustment	0.07	(12.18)	(1.63)	(13.74)
9-12				
Funded ADM	738.00	716.29	720.03	2,174.32
Audited ADM	733.87	701.02	719.87	2,154.76
ADM Adjustment	4.13	15.27	0.16	19.56

Source: Auditor analysis of District records and SAIS data for FY2008, FY2009 and FY2010.

**Student Full Time Equivalency
Was Not Calculated Correctly**

In addition to incorrectly reporting some student data to ADE, the District was not calculating the FTE for the high school students correctly in FY2009 or FY2010. Auditors found that 32 high school students during these two fiscal years were reported incorrectly, resulting in the ADM for these students being overreported by 6.48. According to ADE Guidelines and Procedures EX-18 (EX-18), the student must be scheduled for a minimum number of hours during the year for the FTE that a student is reported as attending⁵. However, instead of reducing the FTE for the students enrolled in fewer than 720 hours in the year, the District reported the students with a 1.0 FTE and instead reported these students as being absent for a portion of each day during the year. By doing so, the District inappropriately overreported ADM for Basic State Aid for these students and overreported absences.

**The District Was Underfunded \$58,696.87 for
The Three Fiscal Years Audited**

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate student data reported to ADE for the three fiscal years audited. Although the net ADM was overreported, the District did not receive any Basic State Aid funding for the high school students attending in FY2008, FY2009 or FY2010 because their local funding levy exceeded the threshold to

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

qualify for Basic State Aid funding.⁶ Therefore, no Basic State Aid adjustment was necessary for these students. However, the District must ensure that it accurately calculates FTEs and absences for its students for all grade levels.

Since no Basic State Aid adjustment was made to the high school grades, a funding adjustment was only calculated for students in preschool programs through 8th grade. For preschool programs through grade 8, the ADM reported by the District for these students was overstated by 0.07 in FY2008 and understated by 12.18 and 1.63 for FY2009 and FY2010, respectively. This resulted in Basic State Aid being underfunded by \$58,696.87. Pursuant to A.R.S. § 15-915, the ADE must repay this amount to the District. Table 5 shows the ADM and funding adjustments required for the District for FY2008, FY2009 and FY2010.

Table 5

**Payson Unified School District
ADM and Funding Adjustments Due to
Student Reporting Errors
FY2008, FY2009 and FY2010**

	ADM Adjustment	Funding Adjustment
2008	0.07	\$ 305.50
2009	(12.18)	\$(51,385.55)
2010	(1.63)	\$ (7,616.82)
Total	<u>(13.74)</u>	<u>\$(58,696.87)</u>

Source: Auditor analysis of District records and SAIS data for FY2008, FY2009 and FY2010.

Recommendations:

1. ADE needs to repay \$58,696.87 for incorrectly reported student data.
2. The District should comply with A.R.S. § 15-901 (A) (2) and GE-17 to ensure students are reported accurately.
3. The District should comply with EX-18 and ensure student FTEs are calculated correctly.

⁶ Arizona Revised Statutes Title 15 delineates how school districts are funded. School districts must first levy up to a maximum tax rate established in statute against the eligible property within the school district on both the elementary and high school portions of the funding formula. If the tax levy on either portion is sufficient to fund the school district's statutorily-established budget, the school district does not qualify for Basic State Aid. If the local tax levy is insufficient, the school district receives Basic State Aid to fund the budget.

FINDING 3: THE DISTRICT WAS OVERFUNDED MORE THAN \$26,000 FOR THE DISTRICT-SPONSORED CHARTER SCHOOL

The District did not accurately report data for the District-sponsored charter school for the fiscal years audited. Specifically, auditors found that the District did not provide at least the minimum number of instructional hours for students attending the charter school, did not accurately report students to SAIS and failed to comply with statutory attendance requirements. As a result, the District's ADM was over reported by a total of 8.03 for FY2008, FY2009 and FY2010 and it received an overpayment of Basic State Aid of \$26,208.51 for the three fiscal years audited that must be repaid to ADE.

The District Did Not Provide Sufficient Instructional Hours

Although all school districts are required by statute to provide a minimum number of instructional hours to students, the District did not meet this requirement at its District-sponsored charter school. Specifically, A.R.S. § 15-901 (A) (2) (c) (vi) requires that public schools provide at least 720 instructional hours for all high school students during the audited fiscal years. However, as shown in Table 6 (see page 12), the District did not meet this requirement and only provided students with 672 hours of the 720 required hours during each of the three fiscal years audited.

Auditors obtained and analyzed the bell schedules and calendars for the District-sponsored charter school and compared them to the statutory requirements. While the school reported to ADE that it was operating under a traditional five day calendar, auditors found that during each of the fiscal years audited, the charter school was actually operating an alternative calendar that offered instruction for four days a week, with Friday as an optional make-up day. For each day of instruction, students were required to attend the charter for five hours, with a 20 minute break. However, the charter school included the break in the instructional time period, which is prohibited under GE-18. This resulted in the charter school failing to provide the minimum number of instructional hours to the students attending.

Since the District-sponsored charter school failed to provide the minimum number of instructional hours to its students, these students' ADM was overstated by 3.33, 3.37 and 3.42 for FY2008, FY2009 and FY2010, respectively. Additionally, since the District provided fewer instructional hours than required by statute for the high school students attending the charter school, it inappropriately limited the amount of some of its students' education. Assuming that more time spent in the classroom results in a better education, some of the District's students received less educational opportunities because the District did not provide all of its students with the statutorily-required minimum number of instructional hours.

Table 6

**Payson Unified School District
Instructional Hours Required, Provided
and Percentage Provided for the Charter
FY2008, FY2009 and FY2010**

Fiscal Year	Actual Instructional Hours Provided	Instructional Hours Required	Percentage Of Compliance	ADM Adjustment
FY2008	672	720	93.33%	3.33
FY2009	672	720	93.33%	3.37
FY2010	672	720	93.33%	3.42

Source: Analysis of the District bell schedules and the A.R.S. § 15-901 minimum instructional hours requirements.

**Student Reporting Errors Resulted
In Inaccurate ADM**

Auditors found that the District's net ADM was understated for students attending the charter school. In FY2009 and FY2010, the District had several students who attended the charter school but were not reported to ADE. Because the District did not ensure that these students were in SAIS, these students were not included in the District's ADM. In contrast, in FY2008, the District claimed enrollment and Basic State Aid for students who had withdrawn from the charter school. Although the District eventually removed these students from its enrollment and attendance system, the District did not submit these changes to ADE and thus continued to inappropriately receive funding for the students.

As shown in Table 7, the District's ADM was overstated by 1.00 in FY2008, and understated by 1.51 and 1.58 in FY2009 and FY2010, respectively. For the three fiscal years audited, the student reporting errors resulted in a net ADM understatement of 2.09 for students attending the charter. In the future, the District should ensure that the student data it reports to ADE is accurate.

Table 7

**Payson Unified School District
ADM Adjustments Due to Charter Student Reporting Errors
FY2008, FY2009 and FY2010**

	FY2008	FY2009	FY2010	Total
Funded ADM	50.94	49.05	49.72	149.71
Audited ADM	49.94	50.56	51.30	151.80
ADM Adjustment	1.00	(1.51)	(1.58)	(2.09)

Source: Auditor analysis of District records and SAIS data for FY2008, FY2009 and FY2010.

The District Failed to Comply with Statutory Attendance Reporting Requirements

The District improperly allowed students attending the charter school to earn or “bank” instructional hours to compensate for future absences or to “make up” their previous absences so that they did not miss instructional time. Students could do this by attending additional hours either before or after their regular scheduled time, or on Fridays. According to the charter school’s handbook, students who were absent were required to make up that time within a two week period for reporting and funding purposes. Students were also allowed to bank hours before known absences to make up the time they would miss.

Statute requires that schools meet certain requirements in order to be considered as providing full-time instruction. Specifically, A.R.S. § 15-797 (D) allows schools operating under an alternative calendar to count students as attending full-time as long as the student physically attended at least 20 hours of instruction during the week. However, this does not allow banking or making up time for attendance outside of the week. As a result, the District should not have allowed the banking or making up of instructional hours before or after the week in which an absence occurred for reporting or funding purposes.

In addition to inaccurately reporting absences, the District also failed to maintain the original attendance documents properly. According to ADE Guideline and Procedure EX-34 (EX-34), “all original attendance records, whether paper or paperless, must be maintained for four years.” However, the original attendance records for the charter school were not retained properly. Each student attending the charter school had a time card that they used to clock in and out each day that they arrived late, left early or stayed late. These cards would be used to track any banked time or any make up time that would be required. At the end of each two-week period, the absences not banked or made up would be recorded in a book; however, this book did not contain all of the details of actual attendance each day. Instead of maintaining the original attendance cards for each student as required by statute, these were disposed of by the charter school after one year. In the future, the District should ensure that all original attendance documents are maintained for at least four years pursuant to EX-34.

The District Was Overpaid \$26,208.51 for The Three Fiscal Years Audited

Auditors determined that the District did not receive the correct amount of Basic State Aid for the charter school due to the insufficient instructional hours provided and the inaccurate student data reported to ADE for the three fiscal years audited. The District did not receive any state funding for the high school students attending the charter in FY2009 or FY2010 because their local funding levy exceeded the threshold to qualify for Basic State Aid funding. Therefore, no Basic State Aid adjustment was necessary for these students, and a funding adjustment was only calculated for students attending the charter in FY2008. The ADM reported by the District for these students was overstated by 4.33 in FY2008. This resulted in the Basic State Aid being overfunded by \$26,208.51. Table 8 (see page 14) shows the ADM and funding adjustments required for the District for FY2008, FY2009 and FY2010 for the charter school.

Table 8

**Payson Unified School District
ADM and Funding Adjustments
For the District Sponsored Charter School
FY2008, FY2009 and FY2010**

	Insufficient Instructional Hours	Student Reporting Errors	Total ADM Adjustment	Funding Adjustment ¹
2008	3.33	1.00	4.33	\$26,208.51
2009	3.37	(1.51)	1.86	\$ 0.00
2010	<u>3.42</u>	<u>(1.58)</u>	<u>1.84</u>	<u>\$ 0.00</u>
Total	<u>10.12</u>	<u>(2.09)</u>	<u>8.03</u>	<u>\$26,208.51</u>

¹ The District did not receive Basic State Aid during FY2009 and FY2010, therefore, no ADM-related funding adjustments are necessary.

Source: Auditor analysis of District records and SAIS data for FY2008, FY2009 and FY2010.

Pursuant to A.R.S. § 15-915, ADE must recoup \$26,208.51 for the District-sponsored charter school in FY2008. Additionally, the District must correct its instructional hours shortage and enrollment inaccuracies to remedy the problems found by auditors for the District-sponsored charter school to be properly funded.

Recommendations:

1. ADE needs to recoup \$26,208.51 for insufficient instructional hours and student data errors for the charter.
2. The District should ensure that it provides all high school students with at least the statutorily-required minimum number of instructional hours.
3. The District should comply with A.R.S. § 15-901 (A) (2) and GE-17 to ensure student data is reported accurately.
4. The District should comply with A.R.S. § 15-15-797 (D) to ensure that all absences are calculated correctly.
5. The District should comply with EX-34 to ensure all original attendance documentation is maintained for at least four years.

ADM FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of \$419,164.47 for the three fiscal years audited:

- \$451,652.84 for insufficient instructional hours;
- \$(58,696.87) for student reporting errors; and
- \$26,208.51 for charter school reporting errors.

Additionally, statutes and rules provide for a formal appeal process through the Office of Administrative Hearings if the District disagrees with the audit results. The District has thirty (30) days from the issuance of the audit report to request an appeal. Appendix A (see page a-i) presents rules that govern the appeal process.

Table 9 lists the ADM adjustments that affect state funding and the associated Basic State Aid adjustments for the District for FY2008, FY2009 and FY2010.

Table 9

**Payson Unified School District
ADM and Funding Adjustments Required for
FY2008, FY2009 and FY2010**

	FY2008		FY2009		FY2010		Total Adjustment
	ADM	Funding	ADM	Funding	ADM	Funding	
Instructional Hours	38.41	\$181,059.13	34.60	\$139,553.34	27.86	\$131,040.37	\$451,652.84
Student Reporting Errors	0.07	\$ 305.50	(12.18)	\$ (51,385.55)	(1.63)	\$ (7,616.82)	\$ (58,696.87)
Charter School Errors	4.33	\$ 26,208.51	0.00	\$ 0.00	0.00	\$ 0.00	\$ 26,208.51
Total	42.81	\$207,573.13	22.42	\$ 88,167.79	26.23	\$123,423.55	\$419,164.47

Source: Auditor analysis of SAIS and District student and financial data for FY2008, FY2009 and FY2010.