



# Arizona Department of Education

The Audit Unit  
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## Average Daily Membership Audit Report Luz Academy of Tucson, Inc. Fiscal Years 2011, 2012 and 2013

Report Number—14-12

April 4, 2014

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John Huppenthal  
Superintendent of  
Public Instruction

April 4, 2014

Dr. Pepe Barron, CEO/Superintendent  
Luz Academy of Tucson, Inc.  
2797 N. Introspect Dr.  
Tucson, AZ 85745

Dear Dr. Barron,

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

Auditors determined that the School had inaccurately reported some student data for the fiscal years audited, which led to the School's ADM being understated. As a result, the School was underfunded Basic State Aid by \$3,200.14, which must be repaid by ADE to the School.

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

Sincerely,

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

Lisa Eddy,  
Chief Auditor

# INTRODUCTION AND BACKGROUND

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of Luz Academy of Tucson, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School 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, auditors 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. 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.

***School financial and other information***—The School, located in Tucson, Arizona, maintained one campus during the fiscal years audited for students in grades 9 through 12. In FY2013, the School enrolled a total of 112 students.

## SCOPE AND METHODOLOGY

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The audit focused on whether the School accurately reported its 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 School and SAIS records for enrollment and attendance. Auditors also reviewed state statutes and School policies and procedures, and interviewed School management and staff.

Additionally, auditors performed specific tasks for the finding. To determine whether the School reported the correct enrollment data to ADE, auditors reviewed 88 student profiles. The first and last days of attendance were then compared to the enrollment and withdrawal dates that were reported to SAIS. Additionally, auditors reviewed the student schedules to determine whether the School accurately reported the full-time enrollment (FTE) status of students. When discrepancies were identified, auditors recalculated the ADM for each student based on the actual enrollment period and FTE status.

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

# **FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN UNDERPAYMENT OF \$3,200.14**

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The School did not accurately report some student enrollment data to ADE for FY2011 and FY2013. Specifically, auditors found that the School misreported enrollment and withdrawal dates for five students, failed to report one student who attended the School and improperly reported the FTE status for one student. As a result, the School's ADM was understated by 0.425 for the three fiscal years audited. Due to this inaccurate enrollment data reported to ADE, the School received a net underpayment of \$3,200.14 in Basic State Aid for the three fiscal years audited, which ADE must repay to the School.

## **The School Inaccurately Reported Student Enrollment Data**

The School misreported student enrollment data for seven students resulting in an understatement of ADM by 0.425. The School did not accurately report entry and exit dates for five students in FY2011 and did not report one student to SAIS in FY2013. Additionally, the School erroneously reported one student's FTE status in FY2013.

*The School misreported entry and exit dates for six students*—The School inaccurately reported to ADE the student enrollment data for six students. As a result, the School understated its ADM in two of the fiscal years by 0.430. ADE External Guidelines and Procedures GE-17<sup>1</sup> (GE-17) states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. Additionally, according to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. However, the School did not always adhere to these requirements. Specifically:

- 5 students had either an incorrect entry date or withdrawal date that was reported to SAIS, which resulted in the School's ADM being overstated by 0.570 in FY2011.
- 1 student was not reported to SAIS; however, the attendance documentation listed the student as being enrolled and attending, which resulted in the School's ADM being understated by 1.000 in FY2013.

*One student's FTE status was incorrectly reported*—Additionally, the School did not accurately report the FTE status for one student to ADE. According to A.R.S. § 15-901 and ADE External

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<sup>1</sup> ADE External Guidelines and Procedures GE-17 states: "For the purposes of determining Average Daily Membership (ADM) for a given school year at a given public school pursuant to A.R.S. § 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."

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 FTE.<sup>2</sup> However, the School did not follow statute and ADE guidelines when calculating and reporting student FTE status for one student. This resulted in a net overstatement of the School's ADM by 0.005.

As shown in Table 1, the School misreported the entry and exit dates for five students in FY2011 and one student in FY2013, and misreported the FTE status for one student in FY2013. As a result, the School's ADM was understated by .425.

**Table 1**

**Luz Academy of Tucson, Inc.  
Number of Students With Incorrect Enrollment Data and  
ADM Adjustment  
FY2011, FY2012 and FY2013**

Fiscal Year	Reporting Errors		Student Not Reported To SAIS		Incorrect FTE		Total	
	Number of Students	ADM	Number of Students	ADM	Number of Students	ADM	Number of Students	ADM
<b>FY2011</b>	5	0.570	0	0.000	0	0.000	5	0.570
<b>FY2012</b>	0	0.000	0	0.000	0	0.000	0	0.000
<b>FY2013</b>	<u>0</u>	<u>0.000</u>	<u>1</u>	<u>(1.000)</u>	<u>1</u>	<u>0.005</u>	<u>2</u>	<u>(0.995)</u>
<b>Total</b>	<u>5</u>	<u>0.570</u>	<u>0</u>	<u>(1.000)</u>	<u>1</u>	<u>0.005</u>	<u>7</u>	<u>(0.425)</u>

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

The School must ensure it complies with A.R.S. § 15-901 and GE-17 when reporting entry and exit dates to SAIS. Additionally, the School must ensure it complies with A.R.S. § 15-901 and EX-18 when calculating and reporting student FTE status.

## **The School Needs to Reconcile Its Enrollment Data With SAIS**

The School can avoid errors in the future by ensuring it correctly reconciles its data to the data contained in SAIS. If the School had properly reconciled its data to SAIS, these enrollment errors could likely have been identified, and the School would not have been underfunded because of these errors. The School must review the reports produced by SAIS and reconcile them to the School's SMS data to identify any discrepancies that would affect funding. Instructions for properly reconciling data can be found in EX-18.

<sup>2</sup> 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 School Was Underpaid  
\$3,200.14 for FY2011 and FY2013**

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for FY2011 and FY2013. The data errors reported by the School resulted in its ADM being understated by 0.425 for the three fiscal years audited. This resulted in the School's Basic State Aid being underfunded by \$3,200.14, which ADE must repay. Table 2 shows the ADM and funding adjustments required for the School for FY2011 and FY2013.

**Table 2**

**Luz Academy of Tucson, Inc.  
ADM and Funding Adjustments Due to  
Enrollment Data Errors  
FY2011 and FY2013**

	FY2011		FY2012		FY2013		Total Adjustment	
	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid
Reporting Errors	0.570	\$3,407.59	-	-	0.005	\$ 33.20	0.575	\$ 3,440.79
Student Not Reported to SAIS	=	=	=	=	(1.000)	\$(6,640.93)	(1.000)	\$(6,640.93)
<b>Total</b>	<b><u>0.570</u></b>	<b><u>\$3,407.59</u></b>	<b><u>=</u></b>	<b><u>=</u></b>	<b><u>(0.995)</u></b>	<b><u>\$(6,607.73)</u></b>	<b><u>(0.425)</u></b>	<b><u>\$(3,200.14)</u></b>

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

**Recommendations:**

1. ADE must repay the School \$3,200.14 in Basic State Aid due to incorrectly reported data.
2. The School must ensure it complies with A.R.S. § 15-901 and GE-17 when reporting entry and exit dates to SAIS.
3. The School must ensure it complies with A.R.S. § 15-901 and EX-18 when calculating and reporting FTE status.
4. The School must reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.

# ADM AND FUNDING ADJUSTMENTS

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This audit identified an overall funding increase of \$3,200.14 for the three fiscal years audited due to data reporting errors.

Table 3 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2011, FY2012 and FY2013.

**Table 3**

**Luz Academy of Tucson, Inc.  
ADM and Funding Adjustments Required for  
FY2011, FY2012 and FY2013**

	FY2011		FY2012		FY2013		Total Adjustment
	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid	
Data Reporting Errors	<u>0.570</u>	<u>\$3,407.59</u>	-	-	<u>(0.995)</u>	<u>\$(6,607.73)</u>	<u>\$(3,200.14)</u>
<b>Total Audit</b>	<b><u>0.570</u></b>	<b><u>\$3,407.59</u></b>	<b>=</b>	<b>=</b>	<b><u>(0.995)</u></b>	<b><u>\$(6,607.73)</u></b>	<b><u>\$(3,200.14)</u></b>

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