Arizona Department of Education

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

Report Number—13-2

June 5, 2013

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John Huppenthal
Superintendent of
Public Instruction

June 5, 2013

Doug Watson, Superintendent
Winslow Unified School District
P.O. Box 580
Winslow, AZ 86047

Dear Superintendent Watson:

The Arizona Department of Education Audit Unit has conducted an audit of the Winslow Unified School District (District) Average Daily Membership 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.

The audit found that the District overstated its ADM for 25 students because it improperly reported time spent in three programs that were not fundable under Arizona law. Additionally, the District made enrollment and FTE reporting errors in FY2010, FY2011 and FY2012. As a result of these findings, the District was overfunded by $140,398.84 for the 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 the District's administration during the course of the audit.

Sincerely,

Arthur E. Heikkila
Chief Auditor

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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 Winslow 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 for FY2010 through 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 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 is located in Winslow, Arizona. For the fiscal years audited, the District educated students in preschool and kindergarten programs and grades one through twelve at three elementary schools, one junior high, one high school and one online school which began in FY2011. Table 1 provides District student, staffing and expenditure information for FY2010, FY2011 and FY2012.

Table 1

Winslow Unified School District
Students, Staffing, Revenues and Expenditures
FY2010, FY2011 and FY2012
(Unaudited)

	FY2010	FY2011	FY2012
Students Enrolled	**2,267**	**2,290**	**2,254**
Number of Teachers	128	126	123
Revenue			
Local	$ 3,744,963	$ 3,247,215	$ 3,206,212
County	$ 363,188	$ 440,061	$ 574,899
State	$ 9,137,584	$ 9,102,943	$ 9,048,901
Federal	$ 5,844,009	$ 5,621,098	$ 5,617,006
Total Revenues	**$19,089,744**	**$18,411,317**	**$18,447,018**
Total Expenditures	**$17,829,957**	**$17,333,958**	**$19,122,283**

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

SCOPE AND METHODOLOGY

The audit focused on whether the District accurately reported its enrollment and attendance 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 FY2010, FY2011 and FY2012.

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

Auditors performed specific tasks for the following finding areas:

- **Improper Enrollment Reporting**—To determine whether the District accurately reported student membership information to SAIS, auditors selected a sample of students from the District's Student Management System (SMS) and compared the student membership data for FY2010, FY2011 and FY2012 to District records and SAIS. For the fiscal years audited, auditors reviewed a sample of the student population: a total of 11 students for FY2010; 33 students for FY2011; and 44 students for FY2012. Auditors analyzed the data, and using statutory and other criteria, determined whether students were properly enrolled or not. Auditors determined ADM and funding adjustments required for each of the fiscal years audited.

- **Reporting Errors**—To determine whether the District accurately reported student information to SAIS, auditors compared student enrollment data for FY2010, FY2011 and FY2012 from the District's SMS to SAIS. In addition, auditors reviewed the classes students took during the year to determine what their FTE should be and compared this to what was reported to SAIS. Auditors then analyzed any differences found between the District's SMS data and SAIS data, and using statutory and other criteria, determined the appropriate FTE for each student analyzed. Auditors determined ADM and funding adjustments required for each of the fiscal years audited.

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 OVERSTATED ITS ADM BY 13.611 RESULTING IN OVERFUNDING OF $99,844.67

The District overstated its ADM by 13.611 for 25 students because it improperly reported time spent in three programs which were not fundable under Arizona law. Students were allowed to participate at home in an on-line academic intervention program authorized by the District in FY2010 and FY2011, and two additional programs in FY2012. However, the District improperly reported the enrollment for these students because statutes require daily attendance at the District school and reporting of attendance at the District school in order for the student to be eligible for reporting and funding, except under statutory exemptions. As a result of overstating its ADM, the District was overfunded by $99,844.67 in Basic State Aid for the three fiscal years audited, which must be recouped by ADE.

The District Overstated Its ADM By 13.611 for 25 Students

The District overstated its ADM for 25 students who were enrolled in three programs during the three fiscal years audited. In FY2010 and FY2011, the District improperly counted enrollment in an online home education program for ADM and funding purposes. In FY2012, the District improperly counted enrollment for students in two additional programs. As a result, the District's ADM was overstated by 13.611.

The District improperly reported enrollment in the Little Colorado River Program HOME in FY2010 and FY2011—In FY2010 and FY2011, the District offered 23 students the opportunity to take their coursework on-line from home through a program called the Little Colorado River Program HOME. According to District staff, the program was considered an intervention program to keep students in school. The program was offered to students who had a variety of issues including discipline, non-attendance and pregnancy issues. However, the District improperly reported enrollment in the program to SAIS. As a result, the District overstated its ADM in FY2010 and FY2011 by 12.301 as follows:

- Three students in FY2010 and seventeen in FY2011 were enrolled in the Little Colorado River Program HOME; however, these students should not have been reported to SAIS. As a result, the District's ADM was overstated by 2.190 in FY2010 and 9.446 in FY2011 for these students.

- Three students were enrolled in less than a full-time program because these students were enrolled in the Little Colorado River Program HOME during part of the fiscal year while also being enrolled in courses at the District's campus. However, the District improperly included the course enrollment in this program as part of a full-time instructional program. As a result, the District's ADM was overstated by .665 for these three students.

The District improperly counted enrollment in two additional programs in FY2012—In FY2012, the District improperly counted the enrollment of two students who attended two additional programs as follows:

- One student was enrolled in a rehabilitation facility for mental and physical issues in FY2012, but did not attend the District during the enrollment period reported to SAIS. As a result, the District's ADM was overstated by .850 for this student.

- One student was enrolled in a District-described "night school" for online credit recovery in FY2012, but should not have been reported as enrolled in this class to SAIS. In addition, according to District staff, the student should not been included in the District's SMS. As a result, the District's ADM was overstated by .460 for this student.

The District overstated its ADM for all three fiscal years—As a result of improperly reporting the enrollment of 25 students in these three programs, the District overstated its ADM for all three fiscal years. As shown in Table 2, the District overstated its ADM by a total of 13.611 because it improperly reported the enrollment of these students in these three programs for ADM and funding purposes.

Table 2

Winslow Unified School District
ADM Adjustments for Little Colorado River Program HOME and Other Programs
FY2010, FY2011 and FY2012

Fiscal Year	Little Colorado River Program HOME ADM Adjustment	Other Programs ADM Adjustment	Total ADM Adjustment
FY2010	2.190	-	2.190
FY2011	10.111	-	10.111
FY2012	-	1.310	1.310
Total	**12.301**	**1.310**	**13.611**

Source: Auditor analysis of District and SAIS records.

Statutes Require Daily Physical Attendance For Funding Except As Authorized

Although the District reported for enrollment the 25 students who were in the three programs, the programs were not eligible because statutes require daily physical attendance for the District to claim enrollment and funding for those students. Arizona statutes authorize exemptions from actual physical attendance under specified scenarios; however, none of the three District programs met the statutory criteria for those exemptions.

Statutes require students to be actually and physically in attendance—School districts are required to take and maintain daily attendance for students. According to A.R.S. § 15-901, "daily attendance" is defined as:

> *"For high schools or ungraded schools in which the pupil is at least fourteen years of age by September 1, the attendance of a pupil shall not be counted as a full day unless the pupil is actually and physically in attendance and enrolled in and carrying four subjects, each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty hours a year, or the equivalent, that count toward graduation in a recognized high school except as provided in section 15-797 and subdivision (e) of this paragraph. Attendance of a pupil carrying less than the load prescribed shall be prorated."*

The District should not have reported enrollment for students in the three programs. Students in these programs were not attending a recognized high school because the students were not actually and physically in attendance at a District school. For example, two of the programs were taken by students at home using online curriculum. The third program involved a student placed in a rehabilitation facility for mental and physical issues. None of the students in these programs were "actually and physically in attendance" at a District school as required by A.R.S. § 15-901. Further, for all three programs, attendance was not taken or maintained. For the three fiscal years audited, A.R.S. § 15-902 required average daily attendance be reported by Districts to SAIS in order to determine funding. However, since the District did not take daily attendance for these students, they should not have been included in the District's enrollment reporting used to determine funding.

None of the three programs met the statutory requirements for exemption from actual physical attendance in a District school—Although statutes allow some exceptions that permit school districts to enroll students without physically attending a District school and taking daily attendance, none of the three District programs met the requirements of any of those statutory exceptions. Listed below are some examples of statutory exemptions from daily physical attendance that school districts may use, and the reasons why the 25 students enrolled in the three District programs did not qualify for them:

- **Students who are homebound or hospitalized.** Under A.R.S. § 15-901, a student who is capable of profiting from academic instruction but who is unable to attend school due to illness, disease, accident, chronic or acute health problems or other health conditions and has been examined and certified by a competent medical doctor as unable to attend regular classes for at least three months may be deemed homebound or hospitalized. Additionally, homebound or hospitalized includes a student who is unable to attend school for a period of less than three months due to a pregnancy and who has been examined and certified by a medical doctor as unable to attend classes regularly due to the risk to the pregnancy. A student deemed homebound or hospitalized may be counted in a full day of attendance for each day during a week in which the student receives at least four hours of instruction.

Although the District identified some of the 25 students as pregnant, the District did not obtain medical certification from a medical doctor as required for these student to be deemed homebound or hospitalized. Therefore, these students were not eligible for enrollment or funding under this statutory exception.

- **Students who attend Arizona on-line instruction (AOI) programs.** According to A.R.S. § 15-808, school districts must be approved by the Arizona State Board of Education to participate in the program. Additionally, a daily log is required to be maintained for each pupil who participates in an AOI in order to calculate the amount of instructional time the student generates each year. For high schools, students in AOI programs are considered full-time students if they complete at least 900 instructional hours in year. The District, which did not have an official AOI program in FY2010, began an authorized program in FY2011.

  However, the students in the Little Colorado River Program HOME were not considered by the District to be part of the District's approved AOI program in FY2011. The District enrolled the HOME program students in the District high school and not in the District's AOI. Similarly, neither the "night school" student nor the student in the rehabilitation facility were enrolled in and participating in the District's AOI program in FY2012, but were reported as enrolled in the District high school. Since the students in the three programs were not part of the District's AOI program, the students were not eligible for enrollment or funding under this statutory exception.

The District Was Overfunded By $99,844.67

The District's ADM was overstated by 13.611 for the three fiscal years audited for students who were not enrolled in and physically attending the District. As shown in Table 3, the District was overfunded by $99,844.67 in Basic State Aid, which ADE must recoup from the District according to A.R.S. § 15-915. Additionally, the District's budget capacity must be adjusted pursuant to requirements listed in the ADM Adjustments section (see page 13).

Table 3

Winslow Unified School District
ADM and Funding Adjustments
FY2010, FY2011 and FY2012

Fiscal Year	ADM Adjustment	Funding Adjustment
FY2010	2.190	$ 9,773.94
FY2011	10.111	$83,107.83
FY2012	1.310	$ 6,962.90
Total	**13.611**	**$99,844.67**

Source: Auditor analysis of District and SAIS records.

Recommendations:

1. ADE needs to recoup $99,844.67 in overpaid Basic State Aid from the District for overstated ADM for students who were not enrolled in and physically attending the District.

2. The District should only report enrollment for students enrolled in and physically attending District courses unless properly utilizing exceptions authorized by law.

FINDING 2: ENROLLMENT AND FTE REPORTING ERRORS RESULTED IN OVERFUNDING OF $40,554.17

The District made enrollment and FTE reporting errors in FY2010, FY2011 and FY2012, resulting in the District being overfunded for each year. The enrollment and FTE reporting errors resulted in a total ADM overstatement of 6.117. This led to an overfunding of $40,554.17, which the District needs to repay to ADE. To ensure that its data is accurately recorded in SAIS, the District should reconcile enrollment information maintained in its data system to the enrollment information in SAIS.

ADM Overstated Due to Enrollment and FTE Reporting Errors

The District's ADM was overstated due to errors in the data reported in SAIS. For 133 students, the District did not report the correct enrollment data, which resulted in a total overstated ADM of 2.477 for the three fiscal years. Additionally, the District did not properly calculate the FTE for 15 of its students, resulting in an ADM overstatement of 3.640.

The District inappropriately reported enrollment of 133 students—The District inaccurately reported 133 students' enrollment or withdrawal dates to ADE. According to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. Additionally, ADE Guideline GE-17[1] 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 133 students, the District did not report the correct enrollment data to ADE. This resulted in a net overstatement of the District's ADM of 2.477. Specifically:

- 28 students reported as enrolled by the District did not have any documentation that indicated they were ever enrolled in the District, which resulted in the District's ADM being overstated by 17.242.

- 40 students were not reported to SAIS by the District; however, documentation reviewed by the auditors verified that the students were enrolled in the District, which resulted in the District's ADM being understated by 21.255.

[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."

- 55 students had either an entry date that was after the date that was reported to SAIS, or a withdrawal date that was prior to the date reported to SAIS, which resulted in the District's ADM being overstated by 7.670.

- 10 students had either an entry date that was prior to the date that was reported to SAIS, or a withdrawal date that was after the date reported to SAIS, which resulted in the District's ADM being understated by 1.180.

As shown in Table 4, enrollment and withdrawal errors resulted in a net ADM overstatement of 2.477 for FY2010, FY2011 and FY2012.

Table 4

Winslow Unified School District
ADM Adjustments Required
Due to Various District Enrollment and Withdrawal Errors Reported to SAIS
FY2010, FY2011 and FY2012

Fiscal Year	Did Not Attend the District, But Was In SAIS	Attended the District, But Was Not In SAIS	Entry Date After What Was Reported to SAIS or Withdrawal Date Prior to What Was Reported to SAIS	Entry Date Prior to What Was Reported to SAIS or Withdrawal Date After What Was Reported to SAIS	Total ADM Adjustment
FY2010	8.637	(11.155)	2.903	(0.490)	(0.105)
FY2011	4.623	(4.600)	1.817	(0.030)	1.810
FY2012	3.982	(5.500)	2.950	(0.660)	0.772
Total	**17.242**	**(21.255)**	**7.670**	**(1.180)**	**2.477**

Source: Auditor analysis of District records and SAIS.

The District inappropriately reported the FTE for 15 students—In addition to inappropriately reporting the enrollment of students, the District also inaccurately reported the Full Time Equivalency (FTE) for 15 students. ADE Guideline EX-18[2] defines how to calculate the FTE based on the time students are enrolled in the District. However, the District did not follow this guideline when reporting the FTE for 15 students. Although these 15 students were enrolled in fewer than 4 classes, the District reported them as full-time or 1.0 FTE. For example, 1 student was reported as 1.0 FTE for 2 years. However, this student was only enrolled in vocal ensemble each year, and so should have been reported as only a 0.25 FTE per year. Table 5 (see page 11) shows the total ADM overstatement of 3.640.

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2 ADE Guideline EX-18 states:

" • A full time student must be scheduled for at least 720 hours of instruction and 20 hours per week.
• A .75 time student must be scheduled for at least 540 hours of instruction and 15 hours per week.
• A .50 time student must be scheduled for at least 360 hours of instruction and 10 hours per week.
• A .25 time student must be scheduled for at least 180 hours of instruction and 5 hours per week."

Table 5

Winslow Unified School District
ADM Adjustments Required
Due to Various District Enrollment Errors Reported to SAIS
FY2010, FY2011 and FY2012

Fiscal Year	Incorrect FTE Reported
FY2010	0.413
FY2011	1.048
FY2012	2.180
Total	**3.640**

Source: Auditor analysis of District records and SAIS.

The District Was Overfunded By $40,554.17

The District did not receive the correct amount of Basic State Aid due to the inaccurate enrollment and FTE data reported to ADE for FY2010, FY2011 and FY2012. The data errors reported by the District resulted in its ADM being overstated by a total of 6.117 for the three fiscal years audited. This resulted in the Basic State Aid being overfunded by $40,554.17, which ADE needs to recoup. Table 6 shows the ADM and funding adjustments required for the District for FY2010, FY2011 and FY2012. Additionally, the District's budget capacity must be adjusted pursuant to requirements listed in the ADM Adjustments section (see page 13).

Table 6

Winslow Unified School District
ADM and Basic State Aid Adjustments
FY2010, FY2011 and FY2012

Fiscal Year	Enrollment Errors	FTE Errors	Total ADM Adjustment	Funding Adjustment
FY2010	(0.105)	0.413	0.308	$ 1,372.82
FY2011	1.810	1.048	2.858	$23,493.57
FY2012	0.772	2.180	2.952	$15,687.78
Total	**2.477**	**3.640**	**6.117**	**$40,554.17**

Source: Auditor analysis of SAIS and District student and financial data for FY2010, FY2011 and FY2012.

The District Did Not Properly Reconcile Its Data with the Data in SAIS

The District did not correctly reconcile its data to the data contained in SAIS. If the District had properly reconciled its data to SAIS throughout the school year, the enrollment errors could have been identified, and the District would not have been overfunded because of these errors. The District should have reviewed the reports produced by SAIS containing enrollment, withdrawal

and FTE information, and reconciled them to the District's SMS data to identify any discrepancies that would affect funding. In the future, to help ensure that its SAIS data is accurate, the District needs to regularly reconcile its SMS data with its data in SAIS.

Recommendations:

1. ADE needs to recoup $40,554.17 in Basic State Aid that should not have been funded to the District due to data reporting errors.

2. The District needs to regularly reconcile its enrollment, withdrawal and FTE data to ensure that its data is accurately reported to SAIS.

3. The District should follow ADE Guideline GE-17 when calculating and reporting the FTE for each student.

ADM AND FUNDING ADJUSTMENTS

Statutes require that corrections for audit findings be made to both state aid and budget capacity. A.R.S. § 15-915, authorizes and provides direction for adjusting state aid and budget capacity. 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.*

Basic State Aid adjustment of $140,398.83 required—The audit identified an overall funding adjustment of $140,398.83 for the three fiscal years audited:

- $99,844.67 for students improperly enrolled in programs not eligible for funding, and;
- $40,554.17 for enrollment and FTE reporting errors.

Budget capacity adjustment also required—ADE also needs to adjust the District's budget capacity for the three years audited. Budget capacity adjustments will be made by ADE once the audit process is completed.

Table 7 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2010, FY2011 and FY2012.

Table 7

Winslow Unified School District
ADM and Funding Adjustments Required for
FY2010, FY2011 and FY2012

	FY2010		FY2011		FY2012		
	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid	Total Adjustment
Programs not Eligible for Funding	2.190	$ 9,773.94	10.111	$ 83,107.83	1.310	$ 6,962.90	$ 99,844.67
Enrollment and FTE Errors	0.308	$ 1,372.82	2.858	$ 23,493.57	2.952	$15,687.78	$ 40,554.17
Total	**2.498**	**$11,146.76**	**12.969**	**$106,601.40**	**4.262**	**$22,650.68**	**$140,398.83**

Source: Auditor analysis of SAIS and District student and financial data for FY2010, FY2011 and FY2012.