



Arizona Department of Education

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Average Daily Membership Audit Report Window Rock Unified School District Fiscal Years 2011, 2012 and 2013

Report Number—15-6

September 25, 2014

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John Huppenthal
Superintendent of
Public Instruction

September 10, 2014

Dr. Deborah Jackson-Dennison, Superintendent
Window Rock Unified School District
Navajo Rte 12
PO Box 559
Fort Defiance, Arizona 86504

Dear Superintendent Jackson-Dennison:

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

Auditors determined that the District did not accurately report non-resident student data for FY2011, FY2012 and FY2013, which resulted in the District's ADM being overstated by 59.377. As a result, the District was overfunded by \$353,988.92, which the District must repay to ADE.

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

Sincerely,

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

Lisa Eddy
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 Window Rock Unified School District (District) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District properly reported enrollment 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, ADE may conduct ADM audits, which help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. School districts and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE. ADE processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

The ADM audit process determines whether payments were correct or if an adjustment is needed. The audit process compares the school district or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district or charter school's reported information does not match the original documentation, the audit will calculate and report the funding adjustment needed to the school district's or charter school's Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings. The audit findings are written and compiled into a report that is then issued to the audited entity.

Superintendent's legal notice links the audit and appeals processes—In addition to the report, the audited entity 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. 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 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 FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

District financial and other information—The District, located in Window Rock, Arizona, maintained 3 elementary schools, 1 middle school, 1 high school, and 1 immersion school during the fiscal years audited. Table 1 presents the District's unaudited student, staffing and financial information for FY2011, FY2012 and FY2013.

Table 1

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

	FY2011	FY2012	FY2013
Students Enrolled	2,547	2,596	2,372
Number of Teachers	152	168	161
Revenue			
Local	\$ 2,372,226	(\$ 945,625)	\$ 1,965,641
County	\$ 448,673	\$ 571,379	\$ 774,410
State	\$12,177,149	\$11,744,514	\$11,547,017
Federal	\$38,887,799	\$15,154,197	\$27,476,033
Total Revenues	<u>\$53,885,847</u>	<u>\$26,524,465</u>	<u>\$41,763,101</u>
Total Expenditures	<u>\$35,880,574</u>	<u>\$34,074,397</u>	<u>\$36,362,561</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2011, FY2012 and FY2013.

SCOPE AND METHODOLOGY

The audit focused on whether the District 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 District and SAIS records for enrollment. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff. Specifically, to determine if students who were claimed for Basic State Aid were residents of Arizona, auditors obtained from the District for FY2011, FY2012 and FY2013 a list of students who were determined by the District to be non-residents. Auditors reviewed student records in the SMS to verify New Mexico residency. Adjustments were determined for each student not eligible for Basic State Aid.

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

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

The District enrolled and claimed ADM for students who were not residents of Arizona during each of the three fiscal years audited. As a result, the District overreported its regular ADM by 54.884 and Special Education (SPED) ADM by 4.493 for a total of 59.377 ADM in FY2011, FY2012 and FY2013. This overstatement of reported ADM resulted in the District being overfunded by \$353,988.92 which needs to be recouped by ADE. In the future, the District needs to enroll only Arizona students, charge non-resident students a reasonable tuition or utilize A. R. S. § 15-823 (F) to allow non-resident reservation students to attend school.

59.377 Over reported ADM Identified for Non-Resident Students

The District inappropriately enrolled and reported non-resident students for ADM during the three fiscal years audited. Auditors used a variety of methods to determine that 101 students were non-residents during FY2011, FY2012 and FY2013. In addition 7 of the non-resident students were classified as SPED. The total over reported non-resident student ADM for the three fiscal years was 59.377.

101 students found to be non-residents for the three years audited—Auditors determined that 101 students were non-residents of Arizona during one or more of the three fiscal years audited. To determine whether the District enrolled and received funding for non-resident students during FY2011, FY2012 and FY2013, auditors used a list of non-resident students the District provided to ADE for FY2011, FY2012 and FY2013 to determine whether those students attended the District schools in the three years audited. Auditors reviewed student records in the SMS to verify New Mexico residency.

7 of the 101 non-resident students were determined to be SPED—Auditors determined that of the 101 non-residents students, 7 were classified as SPED. Since these students were not eligible to receive Basic State Aid, the District was not eligible to receive additional ADM for the SPED categories for these students.

ADM for non-resident students was overreported by 59.377—As a result of non-resident students being enrolled in each of the three fiscal years audited, the District's regular ADM was overreported by 54.884. In addition, their SPED ADM was overreported by 4.493. Overall the District's ADM was overreported by 59.377 ADM as shown in Table 2 (see page 5).

Table 2

**Window Rock Unified District
Overreported ADM for Non-Resident Students
FY2011, FY2012 and FY2013**

	FY2011	FY2012	FY2013	Total
Regular ADM	13.965	27.104	13.815	54.884
SPED ADM	0.003	4.489	0.000	4.493
TOTAL ADM Adjustment	13.968	31.593	13.815	59.377

Source: Auditor analysis of the SAIS and District records for FY2011, FY2012 and FY2013.

**District Was Overfunded
By \$353,988.92**

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 \$139,755.23 in FY2011, \$143,876.07 in FY2012 and \$70,357.62 in FY2013. Overall, the District was overfunded by \$353,988.92 for the three fiscal years audited, which must be repaid to ADE.

Table 3

**Window Rock Unified School District
ADM Adjustment and Funding Adjustment for Non-Resident Students
FY2011, FY2012 and FY2013**

	ADM Adjustment	Funding Adjustment
FY2011	13.969	\$139,755.23
FY2012	31.593	\$143,876.07
FY2013	13.815	\$ 70,357.62
Total	59.377	\$353,988.92

Source: Auditor analysis of the SAIS and District records for FY2011, FY2012 and FY2013.

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

Although the District should not have reported non-resident students for Basic State Aid, it should have utilized other options that Arizona statute allows for educating non-resident students. A.R.S. § 15-823 (A) 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 a Reservation but outside Arizona may legally attend Arizona schools. 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 in question, no IGA had been implemented with districts in the bordering state of New Mexico. In the future, the District should ensure that it follows statute when enrolling non-resident students.

Recommendations:

1. ADE must recoup \$353,988.92 in Basic State Aid that was overfunded to the District.
2. The District needs to ensure that it only claims students who are residents of Arizona for Basic State Aid.
3. The District should ensure that it follows statute when enrolling non-resident students.

ADM FUNDING ADJUSTMENTS

A.R.S. § 15-915 requires that ADE makes corrections for audit findings to both 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 FY2013 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 fiscal years audited. Budget capacity adjustment calculations for the District will be made by ADE once the audit is finalized.

Basic State Aid adjustment of \$353,988.92 required to be repaid to ADE—Auditors identified an overall funding adjustment of \$353,988.92 for the three fiscal years audited due to non-resident students enrollment data.

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

Table 4

**Window Rock Unified School District
ADM and Funding Adjustments Required for
FY2010, FY2011 and FY2012**

	FY2011		FY2012		FY2013		Total Adjustment
	ADM	Funding	ADM	Funding	ADM	Funding	
Non-Resident Students	13.965	\$139,721.92	27.104	\$123,432.17	13.815	\$70,357.62	\$333,511.71
Non-Resident SPED	0.003	\$ 33.31	4.489	\$ 20,443.90	0.000	-	\$ 20,477.21
Total	13.968	\$139,755.23	31.593	\$143,876.07	13.815	\$70,357.62	\$353,988.92

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