Arizona Department of Education

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

Report Number—15-7

September 25, 2014

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John Huppenthal
Superintendent of
Public Instruction

September 25, 2014

Hollis Merrill, Superintendent
Snowflake Unified School District
682 School Bus Lane
Snowflake, AZ 85937

Dear Superintendent Merrill,

The Arizona Department of Education Audit Unit has conducted an audit of the Snowflake 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 and attendance and to determine if it received the correct amount of Basic State Aid.

Auditors identified some enrollment data errors made by the District. For all three years audited, the District underreported its ADM by 0.32, which resulted in the District being underfunded by $5,143.29, which ADE is required to repay to the District.

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

Sincerely,

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 Snowflake 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 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 Snowflake, Arizona, maintained seven schools during FY2011, FY2012 and FY2013. Table 1 presents the District's unaudited student, staffing and financial information for FY2011, FY2012 and FY2013.

Table 1

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

	FY2011	FY2012	FY2013
Students Enrolled	**2,633**	**2,557**	**2,554**
Number of Teachers	119	115	116
Revenue			
Local	$4,056,067	$4,933,529	$6,044,850
County	463,322	570,208	551,444
State	9,954,195	9,396,967	8,797,029
Federal	2,731,322	2,090,309	2,083,510
Total Revenues	**$17,204,906**	**$16,991,013**	**$17,476,833**
Total Expenditures	**$18,042,797**	**$17,743,797**	**$17,346,877**

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 and attendance. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff. To determine whether the District reported the correct enrollment data to ADE, auditors reviewed 124 student profiles. The first and last days of attendance were then compared to the enrollment and withdrawal dates that were reported to SAIS. For high school students, auditors calculated the full-time enrollment (FTE) status for each student sampled. In addition, auditors reviewed the SAIS data for each of these students to determine if they were funded for any of the special education categories. If auditors determined that an adjustment was necessary, auditors adjusted the funded ADM for that student.

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 DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN UNDERPAYMENT OF $5,143.29

The District inaccurately reported the student enrollment data for 12 of the District's students for FY2011, FY2012 and FY2013. Specifically, auditors determined that the District inaccurately reported the FTE status of six students, incorrectly reported the entry or exit date of four students and did not properly report to SAIS two students who attended a District school. Additionally, the enrollment data for two special education students was reported incorrectly. As a result of these errors, the District's ADM was understated by 0.32 for the three fiscal years audited. Due to the inaccurate enrollment data, the District received a net underpayment of $5,143.29 in Basic State Aid for the three fiscal years audited which ADE must repay to the District pursuant to A.R.S. § 15-915.

The District Inaccurately Reported Some Student Enrollment Data

The District inaccurately reported 12 students' enrollment data to ADE due to various errors, which resulted in the District's ADM being overreported by 0.32. The District misreported the FTE status of six students, which resulted in the District's ADM being overstated by 0.95. Additionally, the enrollment data for six students was misreported, which resulted in the District's ADM being understated by 1.27.

The District misreported FTE status of six high school students—The District failed to follow statute and ADE guidelines when calculating and reporting student FTE for some students. According to A.R.S. § 15-901 and ADE External 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 a 1.0 FTE. A student who does not meet these requirements is considered a part-time student and their FTE status should be prorated based on the number of instructional hours provided. Specifically, 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.

Auditors determined that six of the District's students did not meet the statutory and ADE guideline requirements for full-time enrollment. According to auditor analysis of the District's bell schedules and calendars, high school students would have needed to have been enrolled in and taking at least five District classes in FY2013 in order to be reported as a 1.0 FTE according to statute and ADE guidelines. In FY2011 and FY2012, auditors determined that only four classes were required in order to be reported as a 1.0 FTE. However, auditor analysis determined that the District improperly counted four classes as a 1.0 FTE for FY2013, which led to an overreporting of the FTE for six students during these fiscal years.

The District had other enrollment data errors—In addition to the incorrectly reported FTE status of six students, the District had other enrollment data errors. ADE External Guideline and Procedures 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. According to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. However, the District did not always adhere to these requirements. Specifically:

- Two special education students were reported with inaccurate membership days, which resulted in the District's ADM being overstated by 0.56.
- Four students had either an incorrect entry or withdrawal date that was reported to SAIS, which resulted in the District's ADM being understated by 0.03.
- Two students were not reported to SAIS; however, District attendance documentation showed the student as being enrolled and attending, which resulted in the District's ADM being understated by 1.80.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 0.32 for FY2011, FY2012 and FY2013.

Table 2

Snowflake Unified School District
ADM Adjustments Due to Enrollment Data Errors
FY2011, FY2012 and FY2013

	FY2011	FY2012	FY2013	Total
Incorrect full-time enrollment status	0.23	-	0.73	0.95
Special Education reporting errors	0.00	-	0.56	0.56
Incorrect entry or withdrawal date	(0.77)	-	0.74	(0.03)
Attended the District, but was not funded	(0.86)	(0.94)	-	(1.80)
Enrollment Data Errors	**(1.41)**	**(0.94)**	**2.03**	**(0.32)**

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

[1] 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 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.*"

The District Must Reconcile Its Enrollment Data With SAIS

The District can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in SAIS. The District should review the reports produced by SAIS and reconcile them to the District's SMS data to identify any discrepancies that would affect funding and correct any errors identified.

The District Was Underfunded by $5,143.29

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for FY2011, FY2012 and FY2013. The enrollment data errors reported by the District resulted in its ADM being overstated by 0.32 for the three fiscal years audited. As a result, the District was underfunded by $1,553.12 in Basic State Aid. However, due to the statutory growth funding formula, this amount is increased by $3,590.17. As a result, the net funding adjustment for the District is $5,143.29. According to A.R.S. § 15-915, ADE must repay the District $5,143.29 in underfunded Basic State Aid for data enrollment errors for the three fiscal years audited. Table 3 shows the ADM and funding adjustments required for the District for FY2011, FY2012 and FY2013.

Table 3

Snowflake Unified School District
ADM and Funding Adjustments Due to
Enrollment Data Errors
FY2011, FY2012 and FY2013

Fiscal Year	ADM Adjustment	Funding Adjustment
2011	(1.41)	$(11,829.62)
2012	(0.94)	(2,752.24)
2013	2.03	9,438.58
Total	**0.32**	**$(5,143.29)**

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

Recommendations:

1. ADE must repay the District $5,143.29 in Basic State Aid due to incorrectly reported enrollment data.

2. The District must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.

3. The District must comply with A.R.S. § 15-901 and EX-18 when calculating and reporting FTE status.

ADM and 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 $5,143.29 required to be repaid by ADE—Auditors identified an overall funding increase of $5,143.29 for the three fiscal years audited due to the various enrollment data errors.

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

Table 4

Snowflake Unified School District
ADM and Funding Adjustments
FY2011, FY2012 and FY2013

	FY2011		FY2012		FY2013		
	ADM	**Funding**	**ADM**	**Funding**	**ADM**	**Funding**	**Total**
Enrollment Data Errors	(1.41)	$(11,829.62)	(0.94)	$(2,752.24)	2.03	$9,438.58	$(5,143.29)
Total Funding Adjustment	**(1.41)**	**$(11,829.62)**	**(0.94)**	**$(2,752.24)**	**2.03**	**$9,438.58**	**$(5,143.29)**

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