



# Arizona Department of Education

## Audit Resolution Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-2097

## Average Daily Membership Audit Report James Sandoval Preparatory High School Fiscal Years 2005 and 2006

Report Number 09-04

February 9, 2009

**CONTACTING THE  
AUDIT RESOLUTION UNIT**

Arthur E. Heikkila, Chief Auditor

**Phone:** (602) 364-2097  
**Email:** [Arthur.Heikkila@azed.gov](mailto:Arthur.Heikkila@azed.gov)  
**Fax:** (602) 542-4056  
**Mail:** 1535 W. Jefferson St., Bin 19  
Phoenix, AZ 85007-3209

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Arizona Department of Education—The Audit Unit  
Attn: Joy Moore  
1535 W. Jefferson St., Bin 19  
Phoenix, AZ 85007-3209

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**ARIZONA DEPARTMENT OF EDUCATION**  
1535 W. Jefferson St., Bin 19 • Phoenix, AZ 85007  
Phone (602) 364-2097 Fax (602) 542-4056

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February 9, 2009

Mr. Eli Marez  
James Sandoval Preparatory High School  
3830 N. 67<sup>th</sup> Ave.  
Phoenix, AZ 85033

Dear Mr. Marez:

The Arizona Department of Education Audit Unit has conducted an audit of the James Sandoval Preparatory High School's Average Daily Membership for Fiscal Years 2005 and 2006. The purpose of the audit was to address whether the School properly reported student attendance and to determine if it received the correct amount of State Aid.

The audit found that the School under-reported its student attendance for FY2005 and FY2006 and as a result, should have received additional State Aid for those fiscal years.

We appreciate the excellent cooperation and assistance provided by the Superintendent and staff during the course of the audit. My staff and I will be pleased to discuss or clarify items in the report.

The final report will be issued a week after the meeting. Unless the School files an appeal, the audit will be final 30 days after issuance. Appendix A in the report provides rules governing the appeal process.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur E. Heikkila".

Arthur E. Heikkila  
Chief Auditor

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# INTRODUCTION AND BACKGROUND

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The Audit Unit of the Arizona Department of Education (ADE) has conducted an Average Daily Membership (ADM) audit of James Sandoval Preparatory High School (School), pursuant to the provisions of A.R.S. §15-183(E)(6) and A.R.S. §15-901(A)(2). This audit focused on whether the School received the correct amount of State Aid based on its reported attendance for FY2005 and FY2006.

Average Daily Membership (ADM) audits help ensure the appropriate distribution of nearly \$5 billion in State Aid provided annually to schools in Arizona. Schools receive State Aid based on several factors related to student attendance.<sup>1</sup> To receive funding, schools report attendance data to ADE. ADE then processes that data, determines payment amounts according to the relevant statutory funding formula(s), and distributes payments to schools 10 times each year.

***Audit and appeal processes***—The ADM audit process determines whether payments were correct or if an adjustment is needed, and provides for an appeal process if the school disagrees with the audit finding(s). ADM audits compare the school's reported information to the original records kept at the school. If the audit finds that the school's reported information does not match the original documentation, the audit will identify and report the funding adjustment needed to the school's State Aid. These funding adjustments can be positive or negative, depending upon the audit finding(s).

After the audit is published, statutes provide schools that disagree with the audit findings the opportunity to file a formal appeal within 30 days after the report was issued. 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. If it has been determined that a school received excess State Aid, statutes allow schools to have their future funding adjusted over a 12-month period to compensate for the overpayment. In case of hardship, schools may request that the Superintendent of Public Instruction to allow the adjustment to occur over a 24-month period.

***School financial and other information***—The School is located in Phoenix and offers education to students from the 9th through the 12th grades. In FY2006, the School reported 161 students enrolled. Table 1 (see page 2), presents the School's student, staffing, and financial information for FY2004, FY2005, and FY2006.

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<sup>1</sup> Charter schools are funded based on "student count" which is defined in A.R.S. §15-185(B)(2) as Average Daily Membership for the current fiscal year. ADM is determined based on student enrollment and other attendance factors. Schools are required every 20 days to submit daily attendance information to ADE for each student enrolled. Attendance information is then used by ADE to calculate ADM.

**Table 1**

**James Sandoval Preparatory High School  
Students, Staffing, Revenues, and Expenditures  
FY2004, FY2005, and FY2006  
(Unaudited)**

	<b>FY2004</b>	<b>FY2005</b>	<b>FY2006</b>
<b>Students Enrolled</b>	<b>192</b>	<b>171</b>	<b>161</b>
<b>Staff</b>			
<b>Total Staff</b>	<b>13</b>	<b>13</b>	<b>10</b>
<b>Revenue</b>			
Local	\$ 18,832	\$ 16,027	\$ 73,844
State	1,126,906	1,169,852	1,125,703
Federal	31,138	151,254	21,690
<b>Total Revenues</b>	<b>\$1,176,876</b>	<b>\$1,337,133</b>	<b>\$1,221,237</b>
<b>Total Expenditures</b>	<b>\$1,189,149</b>	<b>\$1,222,043</b>	<b>\$1,083,496</b>

Source: "Annual Report of the Arizona Superintendent of Public Instruction," for FY2004, FY2005 and FY2006.

## SCOPE AND METHODOLOGY

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The audit reviewed whether the School received the correct amount of State Aid based on the student data it reported to ADE during FY2005 and FY2006.

Auditors used several methods to determine if the School received the correct amount of State Aid based on its reported enrollment information. To gain an understanding of how the School recorded student attendance and how it reported this information to ADE, auditors interviewed School personnel. In addition, auditors reviewed statutes and policies, and guidelines issued by ADE for their analyses.

To determine whether the School received the correct amount of State Aid based on its reported student data, auditors reviewed the accuracy of the School's attendance data that comprises its ADM. To assess the School's ADM, auditors determined the actual enrollment for each student by reviewing each student's class schedule and number of instructional hours attended. Auditors also compared ADE's attendance reports to the School's records for FY2005 and FY2006 to determine if the School correctly reported student absent days.

Because the School exceeded the State's absence threshold for FY2005, auditors utilized the statutorily-prescribed formula to arrive at the "Adjusted ADM", which is used to fund schools that exceeded the statutory absence threshold.<sup>2</sup> Finally, auditors determined the amount of the School's funding adjustment by comparing the School's reported adjusted ADM and audited adjusted ADM.

The Audit Unit expresses its appreciation to the administrators and staff of the School for their cooperation and assistance during this audit.

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<sup>2</sup> A.R.S. §§15-902(A) and 15-902(B) require that if a school has excessive absences (over 8.5 percent for a high school and over 6.0 percent for an elementary or middle school), its "Adjusted ADM" is determined by using its ADA multiplied by 1.085 if it is a high school or 1.060 if it is an elementary or middle school.

# FINDING 1: THE SCHOOL SHOULD HAVE RECEIVED ADDITIONAL STATE AID FOR FISCAL YEARS 2005 AND 2006

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The School under-reported its student attendance for FY2005 and FY2006 and as a result, should have received additional State Aid for those fiscal years. The audit determined that the School's under-reporting attendance resulted in an understating of its ADM by 14.05 in FY2005 and by 3.02 for FY2006. Auditors found that the School's student count was under-reported when comparing the student count that the School reported to ADE with the audited student count.

The School underreported its student attendance because its staff did not report to ADE attendance for seniors who were enrolled in school beyond the usual four years of high school. Specifically, the School's staff were unsure if they were allowed to report seniors who were enrolled beyond the usual four years of high school, and therefore did not report the attendance. Because they did not report these students to ADE for funding purposes, these students were not included in the School's ADM calculations. As a result, the School's ADM was understated by 14.05 for FY2005 and by 3.02 for FY2006, as shown in Table 2. These ADM understatements translate into \$98,527.01 in State Aid that ADE needs to provide to the School.

**Table 2**

**James Sandoval Preparatory High School  
Reported ADM, Audited ADM, Difference, and Underpayment  
FY2005 and FY2006**

Fiscal Year	Reported ADM	Audited ADM	Difference	Underpayment
2005	184.310	198.36	(14.05)	\$80,434.12
2006	<u>160.470</u>	<u>163.49</u>	<u>( 3.02)</u>	<u>18,092.89</u>
<b>Total:</b>	<u>344.780</u>	<u>361.85</u>	<u>(17.07)</u>	<u>\$98,527.01</u>

Source: Auditor analysis of the School's student records for FY2005 and FY2006.

## Recommendations:

1. ADE should provide \$98,527.01 in State Aid to the School since it was underpaid by this amount for FY2005 and FY2006.
2. In the future, the School should ensure that its staff accurately report student attendance to ADE.

# ADM FUNDING ADJUSTMENTS

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The audit identified an overall funding adjustment of \$98,527.01 that the School should have received from ADE for the two fiscal years audited. ADE needs to provide this adjustment to the School's next payment.

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

Table 3 lists the overstated ADM and associated funding adjustments for the School for FY2005 and FY2006.

**Table 3**

**James Sandoval Preparatory High School  
ADM Understatements and State Aid Underpaid for  
Under-Reported Student Count  
FY2005 and FY2006**

Fiscal Year	Under-Reported Student Count and State Aid Underpaid	
	ADM	Amount
2005	14.05	\$80,434.12
2006	3.02	18,092.89
<b>Total</b>	<u>17.07</u>	<u>\$98,527.01</u>

Source: Auditor analysis of SAIS and School student and financial data for FY2005 and FY2006.

# APPENDIX A

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## State Rules For Appealing Audits

The audit determination pursuant to A.R.S. §15-915 is an agency action for which the School can file an appeal. The audit report and cover letter along with this information serve as notice of the School's appeal rights under A.R.S. §41-1092.04. The School's right to a hearing and right to an informal settlement conference are described below in the following sections of the Arizona Revised Statutes.

### **A.R.S. §41-1092.03. Notice of appealable agency action; hearing; informal settlement conference; applicability**

- A. An agency shall serve notice of an appealable agency action pursuant to section 41-1092.04. The notice shall identify the statute or rule that is alleged to have been violated or on which the action is based and shall include a description of the party's right to request a hearing on an appealable agency action and to request an informal settlement conference pursuant to section 41-1092.06.
- B. A party may obtain a hearing on an appealable agency action by filing a notice of appeal with the agency within thirty days after receiving the notice prescribed in subsection A of this section. The notice may be filed by a party whose legal rights, duties or privileges were determined by the appealable agency action. A notice of appeal also may be filed by a party who will be adversely affected by the appealable agency action and who exercised any right to comment on the action provided by law or rule, provided that the grounds for appeal are limited to issues raised in that party's comments. The notice of appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. The agency shall notify the office of the appeal and the office shall schedule a hearing pursuant to section 41-1092.05, except as provided in section 41-1092.01, and subsection F.
- C. If good cause is shown an agency head may accept an appeal that is not filed in a timely manner.

### **A.R.S. §41-1092.06. Appeals of agency actions; informal settlement conferences; applicability**

- A. If requested by the appellant of an appealable agency action, the agency shall hold an informal settlement conference within fifteen days after receiving the request. A request for an informal settlement conference shall be in writing and shall be filed with the agency no later than twenty days before the hearing. If an informal settlement conference is requested, the agency shall notify the office of the request and the outcome of the conference, except as provided in section 41-1092.01, subsection F. The request for an informal settlement conference does not toll the sixty day period in which the administrative hearing is to be held pursuant to section 41-1092.05.
- B. If an informal settlement conference is held, a person with the authority to act on behalf of the agency must represent the agency at the conference. The agency representative shall notify the appellant in writing that statements, either written or oral, made by the appellant at the conference, including a written document, created or expressed solely for the purpose of settlement negotiations are inadmissible in any subsequent administrative hearing. The parties participating in the settlement conference shall waive their right to object to the participation of the agency representative in the final administrative decision.