



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report RSD Charter School, Inc. Fiscal Years 2014, 2015 and 2016

Report Number—17-19

January 27, 2017



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Diane Douglas
Superintendent of
Public Instruction

January 27, 2017

Sandra Davis, Charter Signer
RSD Charter School, Inc.
12814 N. 28th Dr. Ste. 115
Phoenix, AZ 85029

Dear Mrs. Davis,

The Arizona Department of Education Audit Unit has conducted an audit of the RSD Charter School, Inc. (School) Average Daily Membership (ADM) for Fiscal Years 2014, 2015 and 2016. The purpose of the audit was to address whether the School properly reported student enrollment to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School did not accurately report some students' AOI data, which resulted in an understatement of 3.50 ADM and an underfunding of \$24,371.22 in Basic State Aid, which must be repaid to the School as required by statute.

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

Sincerely,

A handwritten signature in blue ink that reads "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 RSD Charter School, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported enrollment data to ADE and received the correct amount of Basic State Aid for FY2014 through FY2016.

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 School’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.

School's information—The School is located in Phoenix, Arizona. In FY2014, FY2015 and FY2016, the School offered instruction in grades 9 through 12 and an Arizona Online Instruction (AOI) program. Table 1 presents the School's unaudited student, staffing and financial information for FY2014, FY2015 and FY2016.

Table 1

**RSD Charter School, Inc.
Total Students, Revenues and Expenditures
FY2014, FY2015 and FY2016
(Unaudited)**

| | FY2014 | FY2015 | FY2016 |
|---------------------------|----------------------------|----------------------------|----------------------------|
| Students Enrolled | 190 | 175 | 217 |
| Number of Teachers | 1 | 6 | 6 |
| Revenue | | | |
| Local | \$ 5,273 | \$ 2,017 | \$ 12,397 |
| Intermediate | - | - | - |
| County | - | - | - |
| State | 1,312,539 | 1,064,572 | 753,802 |
| Federal | 111,994 | 152,197 | 87,187 |
| Total Revenues | <u>1,429,806</u> | <u>1,218,786</u> | <u>853,187</u> |
| Total Expenditures | <u>\$ 1,426,192</u> | <u>\$ 1,295,254</u> | <u>\$ 1,034,040</u> |

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2014, FY2015 and the Annual Financial Report submitted by the School for FY2016.

SCOPE AND METHODOLOGY

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 for Arizona Charter Schools (USFRCS) and its own policies and procedures for FY2014, FY2015 and FY2016.

To conduct this audit, auditors used a variety of methods, including examining School and SAIS records for enrollment. Auditors also reviewed state statutes and School policies and procedures, and interviewed School management and staff. Specifically:

- ***Instructional hours***—Auditors reviewed the bell schedules and calendars for the charter school for FY2014, FY2015 and FY2016. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited. No findings were identified for this area.
- ***Enrollment data***—Auditors compared the School’s student management system to SAIS and identified 36 of 417 students in FY2014 and 27 of 412 students in FY2015, for a total of 63 students, for further evaluation. Auditors reviewed these 63 students’ attendance profiles to determine if the enrollment data reported to ADE was accurate. Auditors compared the student profiles to SAIS to determine if the entry and exit dates were correct. When the audited entry or exit dates were different from the reported dates, auditors recalculated the ADM and made appropriate adjustments to the funded ADM; no findings were identified for this area.
- ***AOI data***— Auditors compared 100% of the School’s AOI data to the data reported to SAIS for the 179 students in FY2014, 237 students in FY2015, and 394 students in FY2016, for a total of 810 students for further evaluation. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. An adjustment was determined when differences were identified.
- ***SPED Data***—Additionally, auditors determined whether an adjusted student had also been funded for one of the special education categories. Auditors determined that there were no special education adjustments.
- ***Limiting***—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited by SAIS. No findings were identified for this area.

The Audit Unit expresses its appreciation to RSD Charter School, Inc.’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENTS' AOI DATA RESULTING IN AN UNDERFUNDING OF \$24,371.22

The School did not accurately report attendance data for some of its AOI students to ADE for FY2014, FY2015 and FY2016. Specifically, auditors identified 684 students whose AOI attendance data was not accurately reported to ADE by the School, which resulted in the School's AOI ADM being understated by 3.50. This inaccuracy in AOI data reporting by the School led to the School being underfunded by \$24,371.22 in Basic State Aid for the three fiscal years audited, which ADE must repay to the School according to A.R.S. § 15-915.

The School Inaccurately Reported AOI Instructional Hours for 684 Students

Auditors determined that the School inaccurately reported some AOI student data, which led to the School's AOI ADM being underreported by 3.50¹. Auditors identified 684 students during the three fiscal years audited that the School misreported student attendance data. These errors occurred because the School did not properly reconcile its data to SAIS.

- 664 students were reported to ADE with incorrect AOI minutes, which resulted in the School's ADM being understated by 3.20 for the three fiscal years audited.
- 11 students were not reported to ADE; however, School attendance documentation showed these students as being enrolled and attending the School's AOI, which resulted in the School's ADM being understated by 0.32 for the three fiscal years audited.
- 8 students were reported to ADE as being full-time; however, School documentation showed these students had participated in the AOI as part-time students², which resulted in the School's ADM being overstated by 0.02 for the three fiscal years audited.
- 1 student was reported to ADE as participating in the School's AOI; however, the School's documentation shows this student did not complete any time in the School's AOI, which resulted in a negligible adjustment to the School's ADM.

¹ According to A.R.S. § 15-808, high school AOI ADM is calculated by dividing the total instructional hours as reported in a daily log for the entire fiscal year by 900.

² According to A.R.S. § 15-808, "Full-time student" means a student who is enrolled in at least four courses throughout the year that meet at least nine hundred hours during the school year.

The School's AOI ADM Was Understated

As a result of these data reporting errors, the School's AOI ADM was understated for the fiscal years audited by 3.50. Properly reporting a student's enrollment status is particularly important for AOI students because full-time and part-time students are funded at different levels. Pursuant to A.R.S. § 15-808, a full-time student is funded at 95% and a part-time student is funded at 85% of the Base Support Level. As a result of these AOI data reporting errors, the School's AOI ADM was understated by 3.50 for the three fiscal years audited as shown in Table 2.

Table 2

**RSD Charter School, Inc.
AOI ADM Adjustments Due to
Data Reporting Errors and
Incorrectly Reported Enrollment Status
FY2014, FY2015 and FY2016**

| | FY2014 | FY2015 | FY2016 | Total |
|------------------------------|---------------|---------------|---------------|---------------|
| Minutes Reported Incorrectly | (0.00) | (3.07) | (0.14) | (3.20) |
| Not Reported to SAIS | (0.30) | (0.02) | - | (0.32) |
| Should have been Part Time | - | 0.00 | 0.01 | 0.02 |
| <u>Did Not Attend</u> | <u>-</u> | <u>-</u> | <u>0.00</u> | <u>0.00</u> |
| Total ADM Adjustments | (0.30) | (3.08) | (0.12) | (3.50) |

Source: Auditor analysis of School records and SAIS data for FY2014, FY2015 and FY2016.

The School Was Underfunded by \$24,371.22

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate AOI data reported to ADE for the three fiscal years audited. The AOI data errors reported by the School resulted in its ADM being understated by 3.50. As a result, the School was underfunded by \$24,371.22 in Basic State Aid, which must be repaid by the ADE to the School as required by A.R.S. § 15-915. Table 3 shows the ADM and funding adjustments required for the three fiscal years audited.

Table 3

**RSD Charter School, Inc.
ADM and Funding Adjustments Due to
AOI Data Errors
FY2014, FY2015 and FY2016**

| Fiscal Year | ADM Adjustment | Net Funding Adjustment |
|--------------------|-----------------------|-------------------------------|
| 2014 | (0.30) | \$ (2,169.30) |
| 2015 | (3.08) | (21,218.54) |
| <u>2016</u> | <u>(0.12)</u> | <u>(983.38)</u> |
| Total | 3.50 | \$ (24,371.22) |

Source: Auditor analysis of School records and SAIS data for FY2013, FY2014 and FY2015.

Recommendations:

1. The School must comply with A.R.S. § 15-808 when calculating and reporting AOI data.
2. The ADE must repay the School \$24,371.22 in Basic State Aid due to incorrectly reported AOI data.

ADM and Funding Adjustments

Auditors identified an overall funding increase of \$24,371.22 for the three fiscal years audited due to inaccurate student AOI status data as reported by the School.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2014, FY2015 and FY2016.

Table 4

**RSD Charter School, Inc.
ADM and Funding Adjustments
FY2014, FY2015 and FY2016**

| | FY2014 | | FY2015 | | FY2016 | | Total |
|---------------------------|--------|---------------|--------|----------------|--------|-------------|---------------|
| | ADM | Funding | ADM | Funding | ADM | Funding | |
| Funding Adjustment | (0.30) | \$ (2,169.30) | (3.08) | \$ (21,218.54) | (0.12) | \$ (983.38) | \$(24,371.22) |

Source: Auditor analysis of SAIS and School student and financial data for FY2014, FY2015 and FY2016.