



## Arizona Department of Education

The Audit Unit

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Phoenix, Arizona 85007

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# Average Daily Membership Audit Report Superior Unified School District Fiscal Years 2014, 2015 and 2016

Report Number—18-6

August 24, 2017



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Diane Douglas  
Superintendent of  
Public Instruction

August 24, 2017

Stephen Estatico, Superintendent  
Superior Unified School District  
1500 Sunset Drive, 101  
Superior, AZ 85273

Dear Superintendent Estatico,

The Arizona Department of Education Audit Unit has conducted an audit of the Superior Unified School District (District) Average Daily Membership (ADM) for Fiscal Years 2014, 2015 and 2016. 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 some students' enrollment data, which resulted in the District's ADM being overstated by 1.13. As a result, the District was overfunded by \$7,672.38, which the District must repay to the State.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "RBegnoche".

Ross Begnoche,  
Associate Superintendent  
Business and Finance

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# INTRODUCTION AND BACKGROUND

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Superior 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 FY2014, FY2015 and 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, 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.

*District information*— The District is located in Superior, Arizona. The District maintained an elementary, junior, and high school in FY2014, FY2015 and FY2016.

**Table 1**

**Superior Unified School District  
Total Students, Revenues and Expenditures  
FY2014, FY2015 and FY2016  
(Unaudited)**

	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
<b>Students Enrolled</b>	<b>421</b>	<b>417</b>	<b>385</b>
<b>Number of Teachers</b>	28	21	23
<b>Revenue</b>			
Local	\$1,780,057	\$1,936,210	\$2,058,561
County	95,718	94,873	102,073
State	1,840,978	1,697,492	1,940,733
Federal	<u>977,992</u>	<u>704,896</u>	<u>817,376</u>
<b>Total Revenues</b>	<b><u>\$4,594,745</u></b>	<b><u>\$4,433,472</u></b>	<b><u>\$4,918,743</u></b>
<b>Total Expenditures</b>	<b><u>\$4,567,763</u></b>	<b><u>\$4,364,327</u></b>	<b><u>\$4,569,743</u></b>

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

## SCOPE AND METHODOLOGY

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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 FY2014, FY2015 and FY2016.

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

- ***Instructional hours***—Auditors reviewed the District’s bell schedules and calendars for the fiscal years audited and determined that the District provided at least the minimum number of instructional hours as required by statute for each grade level. No findings were identified for this area.
- ***Enrollment data***—Auditors compared the District’s student management system to ADE’s and identified 180 students for further evaluation. Auditors reviewed these 180 student profiles to determine if the enrollment data reported to ADE was accurate. Auditors compared the student profiles to ADE’S information system to determine if the entry and exit date was correct. When the audited entry or exit dates were different from the reported dates or the audited FTE differed from the funded FTE for a student, auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***Special Education Data***—Auditors reviewed the students to determine if any were also funded for one of the special education categories. Auditors did not identify any material special education adjustments.
- ***Limiting***—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited. No findings were identified for this area.

Adjustments to ADM are based solely on those identified students that the auditors evaluated further and are not extrapolated to create findings for the entire student population.

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

# **FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$7,672.38**

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The District inaccurately reported the student enrollment data for six of its students for FY2014 and FY2016. Specifically, auditors determined that five students had FTE reported incorrectly and one student had incorrect enrollment dates. In total, the District's ADM was overstated by 1.13 for its students for the three fiscal years audited. As a result, the District was overfunded by \$7,672.38 in total Basic State Aid, which ADE must recoup pursuant to A.R.S. § 15-915.

## **The District Inaccurately Reported Some Student Enrollment Data**

The District inaccurately reported the enrollment data for six students to ADE due to various errors, which resulted in the District's ADM being overreported by 1.13. According to A.R.S. § 15-901 and ADE Guidelines and Procedures EX-18, for a high school student to be reported as a 1.0 FTE, the student must be enrolled in at least four courses which meet at least 123 hours annually each and total at least 720 instructional hours for the year. A student who does not meet these requirements is considered a part-time student and their FTE status must be reduced based on the number of actual instructional hours provided and courses enrolled. However, the District did not always adhere to these requirements. Specifically:

- 5 students were reported with incorrect FTE, which resulted in the District's ADM being overstated by 1.12.
- 1 student had incorrect enrollment dates that were reported to ADE's Student Data System, which resulted in the District's ADM being overstated by 0.01.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 1.13 for FY2014 and FY2016.

**Table 2**

**Superior Unified School District  
ADM Adjustments  
FY2014, FY2015 and FY2016**

	Incorrect FTE	Incorrect Enrollment Dates	Total
2014	0.02	-	0.02
2015	-	-	-
2016	<u>1.10</u>	<u>0.01</u>	<u>1.11</u>
<b>Total</b>	<b>1.12</b>	<b>0.01</b>	<b>1.13</b>

Source: Auditor analysis of District records and A.R.S. § 15-901.

**The District Must Properly Reconcile  
It's Enrollment Data With ADE**

The District can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE's system. Additionally, the District must ensure that a process is in place that captures the proper entry and exit dates of students to ensure proper funding and reporting of data. The District should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE and reconcile them to the District's SMS data to identify any discrepancies and correct any errors identified. The District should review its internal reporting practices and ensure that it properly documents the actual entry and exit dates of students pursuant to statute.

**The District Was  
Overfunded by \$7,672.38**

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 the three years audited. As a result, the District was overfunded by \$7,672.38 in Basic State Aid, which ADE must recoup from the District pursuant to A.R.S. § 15-915. Table 3 (see page 6) shows the ADM and funding adjustment due to enrollment data errors.

**Table 3**

**Superior Unified School District  
ADM and Funding Adjustments  
FY2014, FY2015 and FY2016**

	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>Total</b>
ADM	0.02	-	1.11	1.13
Funding Adjustments	\$ 126.96	\$ -	\$ 7,545.42	\$ 7,672.38

Source: Auditor analysis of District records, A.R.S. § 15-901 and EX-18.

**Recommendations:**

1. The District must properly reconcile its data each year to ensure it complies with ADE External Guideline and Procedures GE-17 and A.R.S. § 15-901.
2. The District must reimburse to ADE \$7,672.38 in Basic State Aid due to inaccurately reported enrollment data.

# ADM and Funding Adjustments

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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 \$7,672.38 required to be repaid to ADE**—Auditors identified an overall funding decrease of \$7,672.38 for the three fiscal years audited due to inaccurate student enrollment data.

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

**Table 4**

**Superior Unified School District  
ADM and Funding Adjustments  
FY2014, FY2015 and FY2016**

	FY2014		FY2015		FY2016		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Inaccurate Enrollment Data	0.02	\$ 126.96	-	\$ -	1.11	\$ 7,545.42	\$ 7,672.38