



## Arizona Department of Education

The Audit Unit

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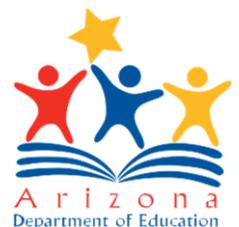
Phoenix, Arizona 85007

602-364-4061

# Average Daily Membership Audit Report Valley Academy for Career and Technology Education Fiscal Years 2014, 2015 and 2016

**Report Number—18-05**

**August 17, 2017**



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Diane Douglas  
Superintendent of  
Public Instruction

August 17, 2017

Robert Weir, Superintendent  
Valley Academy for Career and Technology Education  
830 S Main Street, Suite 2-I  
Cottonwood, AZ 86326

Dear Superintendent Weir,

The Arizona Department of Education Audit Unit has conducted an audit of the Valley Academy for Career and Technology Education (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 student enrollment data for FY2014, FY2015 and FY2016, which resulted in an overstatement of 24.751 ADM. As a result, the District was overfunded by \$89,350.39, which the District must pay 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 blue ink that reads "R. Begnoche".

Ross Begnoche,  
Associate Superintendent,  
Business and Finance

# TABLE OF CONTENTS

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	<u>Page</u>
<b>Introduction and Background.....</b>	<b>1</b>
<b>Scope and Methodology .....</b>	<b>3</b>
<b>Finding 1: The District Misreported Some Student’s FTE Status, Resulting In An Overpayment of \$89,350.39</b>	<b>4</b>
The District Inaccurately Calculated and Reported FTE for 71 Students .....	4
The District Failed to Comply With Statute When Reporting FTE .....	4
The District Was Overpaid \$89,350.39 in Basic State Aid.....	5
Recommendations .....	5
<b>ADM and Funding Adjustments.....</b>	<b>6</b>

# TABLE OF CONTENTS (CONT'D)

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	<u>Page</u>
<b>Tables:</b>	
1 Valley Academy for Career and Technology Education Total Students, Revenues and Expenditures FY2014, FY2015 and FY2016 (Unaudited) .....	2
2 Valley Academy for Career and Technology Education Number of Students with Incorrect FTE And Associated ADM Adjustment FY2014, FY2015 and FY2016.....	4
3 Valley Academy for Career and Technology Education ADM Adjustment Due to Incorrect FTE and Associated Funding Adjustment FY2014, FY2015 and FY2016.....	5
4 Valley Academy for Career and Technology Education ADM and Funding Adjustments FY2014, FY2015 and FY2016.....	6

# 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 Valley Academy for Career and Technology Education (District) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District 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 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 2014, 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 FY2015 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.*

**District information**—The District, located in Cottonwood, Arizona, is a Joint Technical Education District (JTED) which had one central campus and three satellite campuses during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2014, FY2015 and FY2016.

**Table 1**

**Valley Academy for Career and Technology Education  
Total Students, Revenues and Expenditures  
FY2014, FY2015 and FY2016  
(Unaudited)**

	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
<b>Students Enrolled</b>	<b>1,015</b>	<b>1,001</b>	<b>1,078</b>
<b>Revenue</b>			
Local	\$465,040	\$551,046	\$478,601
Intermediate	\$187,393	\$174,927	\$180,445
State	\$554,811	\$491,128	\$603,079
Federal	\$173,891	\$177,970	\$64,181
<b>Total Revenues</b>	<b><u>\$1,381,135</u></b>	<b><u>\$1,395,071</u></b>	<b><u>\$1,326,306</u></b>
<b>Total Expenditures</b>	<b><u>\$1,369,404</u></b>	<b><u>\$1,403,106</u></b>	<b><u>\$1,311,276</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 SAIS records for enrollment to review 311 of 3094 students over the three fiscal years audited. 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. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff. Specifically:

- ***FTE calculations*** – Auditors reviewed the bell schedules and student schedules to determine whether the District reported the correct full time enrollment (FTE) data to ADE. Depending on whether the student was attending a satellite campus or a central campus, auditors determined if the FTE should have been 0.25 or 0.75. When the audited FTE was different from the reported FTE for a student, auditors recalculated the ADM.
- ***Enrollment data*** – Auditors reviewed student schedules to determine if the enrollment data reported to ADE was correct. Auditors compared the entry and exit dates to the student schedules to determine if an adjustment was necessary. Auditors also reviewed absences to ensure that they were reported correctly, and made adjustments if they were needed. No findings were identified for this area.

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 MISREPORTED SOME STUDENT’S FTE STATUS, RESULTING IN AN OVERPAYMENT OF \$89,350.39**

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Auditors determined that the District inaccurately reported some students’ FTE status for 71 students in Fiscal Years 2014, 2015 and 2016. Specifically, auditors found that 71 students were reported as attending the central campus instead of attending a satellite campus. As a result of these errors, the District’s ADM was overstated by 24.75. Due to the inaccurate FTE for these students, the District received a net overpayment of \$89,350.39 in Basic State Aid which the District must repay to ADE.

## **The District Incorrectly Calculated and Reported FTE for 71 Students**

Auditors determined that the District improperly calculated the FTE status for some of its students for all three fiscal years audited. Auditors identified 71 high school students whose FTE status was incorrectly reported. They were reported to ADE as 0.75 based on the student attending classes the central campus. However, since these classes were actually satellite campus classes, the FTE should have been reported as 0.25. As a result, the District’s regular ADM was overstated by 24.75, as shown in Table 2.

**Table 2**

**Valley Academy for Career and Technology Education  
Number of Students with Incorrect FTE and Associated ADM Adjustment  
FY2014, FY2015 and FY2016**

Fiscal Year	Students	ADM
2014	27	7.56
2015	17	8.65
2016	27	8.54
<b>Total</b>	<b><u>71</u></b>	<b><u>24.75</u></b>

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

## **The District Failed to Comply With Statute When Reporting FTE**

The District did not follow statute when calculating and reporting student FTE for some students. According to A.R.S. § 15-393(P) says “Notwithstanding any other law, the average daily membership for a pupil in grade ten, eleven or twelve who is enrolled in a course that meets for at least one hundred fifty minutes per class period at a centralized campus shall be 0.75.” For students that are attending classes that meet these requirements on the central campus, the District could claim up to 0.75 FTE. If a class is held through one of the satellite campuses, the District could claim up to 0.25 FTE.

However, for each of the three years audited, the District incorrectly reported that students were attending the central campus and claimed 0.75 FTE. These classes were actually offered through the satellite campus and so should have only been reported with a 0.25 FTE. As a result, the FTE status for 71 students was overstated.

In the future, the District must ensure it complies with statute to properly calculate and report FTE.

## **The District Was Overpaid \$89,350.39 in Basic State Aid**

Auditors determined that the District did not receive the correct amount of Basic State Aid due to improperly calculated and reported FTE for 71 students. Specifically the District was overpaid \$89,350.39 in Basic State Aid. The ADM for FY2016 was not used to determine Basic State Aid because the funding formula transitioned from using prior year data to current year data in FY2017. Therefore, no funding adjustment was necessary for the ADM overstatement in FY2016. According to A.R.S. § 15-915, ADE needs to recoup the \$89,350.39 in overpaid Basic State Aid from the District for incorrectly reported FTE for all three fiscal years audited. Table 3 (see page 6) shows the ADM and funding adjustments required for the District for FY2014, FY2015 and FY2016.

**Table 3**

**Valley Academy for Career and Technology Education  
ADM Adjustment Due to Incorrect FTE and  
Associated Funding Adjustment  
FY2014, FY2015 and FY2016**

<b>Fiscal Year</b>	<b>ADM Adjustment</b>	<b>Net Funding Adjustment</b>
2014	7.56	\$43,331.28
2015	8.65	\$46,019.11
2016	8.54	-
<b>Total</b>	<b><u>24.75</u></b>	<b><u>\$89,350.39</u></b>

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

### **Recommendations:**

1. ADE needs to recoup \$89,350.39 in overpaid Basic State Aid from the District for incorrectly reported FTE for all three fiscal years audited.
2. The District needs to ensure that it properly calculates and reports students' FTE pursuant to statute.

# 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 2014, 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 FY2015 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’s School Finance Unit once the audit is finalized.

**Basic State Aid adjustment of \$89,350.39 required to be repaid to ADE**—Auditors identified an overall funding adjustment of \$89,350.39 for the three fiscal years audited due to improperly calculated FTE.

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

**Table 4**

**Valley Academy for Career and Technology Education  
ADM and Funding Adjustments  
FY2014, FY2015 and FY2016**

	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>Total</b>
ADM Adjustments	7.56	8.65	8.54	<b>24.75</b>
Funding Adjustments	\$43,331.28	\$46,019.11	-	<b>\$89,350.39</b>

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