



## Arizona Department of Education

The Audit Unit  
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# Average Daily Membership Audit Report Desert Star Academy Fiscal Years 2015, 2016 and 2017

Report Number—18-15  
January 25, 2018



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Diane Douglas  
Superintendent of  
Public Instruction

January 25, 2018

Ms. Margie Montgomery, School Director  
Desert Star Academy  
5599 Highway 95  
Fort Mohave, AZ 86426

Dear Ms. Montgomery,

The Arizona Department of Education Audit Unit has conducted an audit of the Desert Star Academy (School) Average Daily Membership (ADM) for Fiscal Years 2015, 2016 and 2017. 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 some students were not old enough to be enrolled, and some students were reported but did not attend the School, which resulted in an overstatement of 17.27 ADM and an overfunding of \$115,526.42 in Basic State Aid, which must be repaid to ADE 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 cursive script that reads "Tammy Seilheimer".

Tammy Seilheimer,  
Chief Auditor

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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 Desert Star Academy (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 Fiscal Years (FY) 2015 through FY2017.

***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's 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's 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.

*School's information*—The School has one school site located in Fort Mohave, Arizona. In FY2015, FY2016 and FY2017, the School offered instruction in grades KG through 8. Table 1 presents the School's unaudited student, staffing and financial information for FY2015, FY2016 and FY2017.

**Table 1**

**Desert Star Academy  
Total Students, Revenues and Expenditures  
FY2015, FY2016 and FY2017  
(Unaudited)**

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<b>Students Enrolled</b>	<b>85</b>	<b>199</b>	<b>300</b>
<b>Revenue</b>			
Local	\$ 23,074	\$ 53,824	\$55,688
County	0	0	0
State	522,623	1,342,026	2,132,257
Federal	0	0	0
<b>Total Revenues</b>	<b><u>545,697</u></b>	<b><u>1,395,850</u></b>	<b><u>2,187,945</u></b>
<b>Total Expenditures</b>	<b><u>\$657,367</u></b>	<b><u>\$ 1,489,114</u></b>	<b><u>\$2,329,683</u></b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2015, FY2016 and FY2017.

## SCOPE AND METHODOLOGY

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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 (USFR) and its own policies and procedures for FY2015, FY2016 and FY2017.

To conduct this audit, auditors used a variety of methods, including examining School and State records for enrollment. 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 School policies and procedures, and interviewed School management and staff. Specifically:

- ***Birth Dates***—Auditors reviewed the kindergarten and first grade student files and birth certificates to see if students met the minimum age requirements to be enrolled in those grades. Auditors made an adjustment if students were found to be too young to be enrolled in the grade level they were in.
- ***Enrollment data***—Auditors reviewed student enrollment and withdrawal forms to determine if the enrollment data reported to ADE was correct. Auditors also looked at the attendance and report cards to ensure that students were enrolled in the school. Auditors made adjustments to the enrollment data for students if a discrepancy was identified.
- ***Instructional hours***—Auditors reviewed the bell schedules and calendars for the charter school for FY2015, FY2016 and FY2017. 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.
- ***SPED Data***—Auditors determined whether an adjusted student had also been funded for a special education category. No findings were identified for this area.
- ***Limiting***—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited by ADE’s system. No findings were identified for this area.

The Audit Unit expresses its appreciation to Desert Star Academy’s administration and staff members for their cooperation and assistance throughout the audit.

# **FINDING 1: SOME DATA WAS INACCURATE, RESULTING IN AN OVERFUNDING OF \$115,526.42**

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Auditors determined that the School was inaccurately funded for 17 students during the three fiscal years audited. Eight students were found to be too young to be enrolled in the grade level they were attending, resulting in an ADM overstatement of 10.00. In addition, nine students did not have any documentation to support that they were enrolled in and attended the School during the years audited, resulting in the ADM being overstated by 7.27. As a result, the School’s ADM was overstated by a total of 17.27. Due to this inaccurate data, the School was overfunded by \$115,526.42 in Basic State Aid, which the School must repay to ADE according to A.R.S. § 15-915.

## **Some student data was inaccurate**

Auditors determined that the School was not funded accurately for 17 students. According to A.R.S. §15-821 kindergarten students must be five years of age and first grade students must be six years of age by September 1, or by January 1 if it is in the best interest of the child. However, auditors found that several students were enrolled before they reached the minimum age. In addition, auditors identified some students that did not have any documentation to support that they were enrolled in and attended the School during the fiscal years audited. As a result, the School’s ADM was overstated by 17.27. Specifically:

- Eight students were enrolled in FY2015 when they did not meet the age requirements. Four of these students were then enrolled again in FY2016 when they still did not meet the age requirements. There were no students in FY2017 that were enrolled without meeting the age requirement. This resulted in the School’s ADM being overstated by 10.00.
- Nine students did not have documentation to show that they were enrolled in and attended the School. There were three students in FY2015, five students in FY2016 and only one student in FY2017 that did not attend. This resulted in the School’s ADM being overstated by 7.27.

As shown in Table 2, this data error resulted in a net ADM overstatement of 17.27 in FY2015, FY2016 and FY2017.

**Table 2**

**Desert Star Academy  
ADM Adjustments  
FY2015, FY2016 and FY2017**

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>Total</b>
Did not meet minimum age requirement	6.00	4.00	0.00	10.00
Did not attend	<u>2.24</u>	<u>4.03</u>	<u>1.00</u>	<u>7.27</u>
<b>Total</b>	<b>8.24</b>	<b>8.03</b>	<b>1.00</b>	<b>17.27</b>

Source: Auditor analysis of District records and ADE data for FY2015, FY2016 and FY2017.



In the future, the School needs to ensure that students meet the minimum age requirements before enrolling students. In addition, the School should reconcile data regularly to ensure it complies with statute and ADE guidelines.

## The School was overfunded by \$115,526.42

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate data in ADE’s system for the three fiscal years audited. The data error resulted in its ADM being overstated by 17.27. As a result, the School was overfunded by \$115,526.42 in Basic State Aid, which must be repaid by the School to ADE as required by A.R.S. § 15-915. Table 3 shows the ADM and funding adjustments required for the fiscal years audited.

**Table 3**

**Desert Star Academy  
ADM and Funding Adjustments Due to  
Data Errors  
FY2015, FY2016 and FY2017**

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>Total</b>
ADM Adjustments	8.24	8.03	1.00	<b>17.27</b>
Funding Adjustments	\$55,704.41	\$54,085.61	\$5,736.40	<b>\$115,526.42</b>

Source: Auditor analysis of District records and ADE data for FY2015, FY2016 and FY2017.

### Recommendations:

1. ADE must recoup from the School \$115,526.42 in Basic State Aid due to inaccurate student data.
2. The School needs to ensure students meet the minimum age requirements in A.R.S. § 15-821.
3. The School should reconcile its data to ensure that it complies with statute and ADE guidelines.
4. The School needs to ensure it maintains all documentation for students that attend the school.

# ADM AND FUNDING ADJUSTMENTS

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*Basic State Aid adjustment of \$115,526.42 required to be repaid to ADE*—Auditors identified an overall funding adjustment of \$115,526.42 for the School for three fiscal years audited due to inaccurate data.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2015, FY2016 and FY2017.

**Table 4**

**Desert Star Academy  
ADM and Funding Adjustments  
FY2015, FY2016 and FY2017**

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>Total</b>
ADM Adjustments	8.24	8.03	1.00	<u><b>17.27</b></u>
Funding Adjustment	\$55,704.41	\$54,085.61	\$5,736.40	<u><b>\$115,526.42</b></u>

Source: Auditor analysis of ADE and School student and financial data for FY2015, FY2016 and FY2017.