



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Kayenta Unified School District Fiscal Years 2015, 2016 and 2017

**Report Number—18-19
February 23, 2018**



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Diane Douglas
Superintendent of
Public Instruction

February 23, 2018

Dr. Bryce Anderson, Superintendent
Kayenta Unified School District
PO Box 337
Kayenta, AZ 86033

Dear Dr. Bryce Anderson,

The Arizona Department of Education Audit Unit has conducted an audit of the Kayenta Unified School District (District) Average Daily Membership (ADM) for Fiscal Years 2015, 2016 and 2017. The purpose of the audit was to address whether the District properly reported student enrollment, and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the District was improperly limited for FY2015, FY2016 and FY2017, which resulted in an understatement of 46.70 ADM. As a result, the District was underfunded by \$182,529.44, which ADE must pay to the District.

We appreciate the cooperation and assistance provided by the District'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

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Kayenta Unified School District (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 Fiscal Years (FY) 2015 through 2017.

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 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.

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 Kayenta, Arizona, had one elementary school, one middle school and one high school during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2015, FY2016 and FY2017.

Table 1

**Kayenta Unified School District
Total Students, Revenues and Expenditures
FY2015, FY2016 and FY2017
(Unaudited)**

	FY2015	FY2016	FY2017
Students Enrolled	1,874	1,817	1,743
Number of Teachers	116	116	116
Revenue			
Local	\$ 2,757,925	\$ 2,296,123	\$ 2,199,671
Intermediate	\$ 597,119	\$ 559,193	\$ 542,017
State	\$ 9,756,338	\$ 10,345,627	\$ 10,680,004
Federal	\$ 16,594,178	\$ 16,431,134	\$ 14,994,526
Total Revenues	<u>\$ 29,705,560</u>	<u>\$ 29,632,078</u>	<u>\$ 28,416,218</u>
Total Expenditures	<u>\$ 24,727,474</u>	<u>\$ 26,740,599</u>	<u>\$ 33,899,082</u>

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

SCOPE AND METHODOLOGY

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 FY2015, FY2016 and FY2017.

To conduct this audit, auditors used a variety of methods, including examining District and ADE records to review 1,033 of 5,931 students over the three fiscal years audited. 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. No findings were identified for this area.
- **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.
- **Instructional hours**—Auditors reviewed the bell schedules and calendars for the District 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.
- **Residency**—Auditors reviewed student file documentation to ensure that documentation was obtained to provide proof of residency in the state of Arizona, and that this was reaffirmed each year. 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. Auditors made an adjustment when they found that a student was improperly limited.

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 WAS IMPROPERLY LIMITED, RESULTING IN AN UNDERPAYMENT OF \$182,529.44

Auditors determined that the District was improperly limited for 397 students in Fiscal Years 2015, 2016 and 2017. Specifically, auditors found that the ADM for students that attended the Joint Technical Education District (JTED) were overclaimed by the JTED, which resulted in the ADM for the District being limited improperly. As a result of these errors, the District’s ADM was understated by 46.70 and the District received a net underpayment of \$182,529.44 in Basic State Aid which ADE must repay to the District.

The District’s ADM was improperly limited for 397 students

Auditors determined that the District’s ADM was improperly limited for some of its students for all three fiscal years audited. Auditors identified 397 high school students whose ADM was limited when it should not have been. These students all attended the JTED, which improperly reported the ADM for their students. The ADM for a student attending both a District and a JTED central campus is limited to 1.75 ADM. The District properly reported their students with a 1.0 FTE; however, the JTED was overclaiming their students with a 1.0 FTE when the students were not eligible for this. As a result, the District was improperly limited below what they were eligible to receive for these students. As a result, the District’s ADM was understated by 46.70, as shown in Table 2.

Table 2

**Kayenta Unified School District
Number of Students improperly limited and ADM Adjustment
FY2015, FY2016 and FY2017**

Fiscal Year	Students	ADM
2015	165	(20.11)
2016	117	(13.41)
2017	115	(13.18)
Total	<u>397</u>	<u>(46.70)</u>

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

The District was underpaid \$182,529.44 in Basic State Aid

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the improperly limited ADM for 397 students. Specifically, the District was underpaid \$182,529.44 in Basic State Aid. The ADM for FY2017 was not used to determine Basic State Aid because the funding formula transitioned from using prior year data to current year data.

Therefore, no funding adjustment was necessary for the ADM overstatement in FY2017. According to A.R.S. § 15-915, ADE needs to repay the \$182,529.44 in underpaid Basic State Aid to the District for the improperly limited ADM for all three fiscal years audited. Table 3 shows the ADM and funding adjustments required for the District for FY2015, FY2016 and FY2017.

Table 3

**Kayenta Unified School District
ADM and Funding Adjustment
FY2015, FY2016 and FY2017**

Fiscal Year	ADM Adjustment	Net Funding Adjustment
2015	(20.11)	\$ (109,743.30)
2016	(13.41)	\$ (72,786.14)
2017	(13.18)	-
Total	<u>(46.70)</u>	<u>\$ (182,529.44)</u>

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

Recommendations:

1. ADE needs to repay \$182,529.44 in underpaid Basic State Aid to the District for improperly limited ADM for all three fiscal years audited.

ADM and Funding Adjustments

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 \$182,529.44 required to be repaid to the District—Auditors identified an overall funding adjustment of \$182,529.44 for the three fiscal years audited due to improperly limited ADM.

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

Table 4

**Kayenta Unified School District
ADM and Funding Adjustments
FY2015, FY2016 and FY2017**

	FY2015	FY2016	FY2017	Total
ADM Adjustments	(20.11)	(13.41)	(13.18)	(46.70)
Funding Adjustments	<u>\$ (109,743.30)</u>	<u>\$ (72,786.14)</u>	<u>\$ 0.00</u>	\$ (182,529.44)

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