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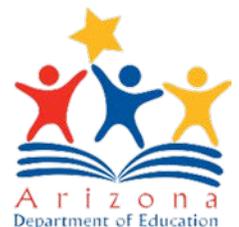
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Average Daily Membership Audit Report Northeast Arizona Technological Institute of Vocational Education Fiscal Years 2015, 2016 and 2017

Report Number—18-18

February 23, 2018



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Diane Douglas
Superintendent of
Public Instruction

February 23, 2018

Ronlye Tsosie, Superintendent
Northeast Arizona Technological Institute of Vocational Education
P.O. Box 710
Kayenta, AZ 86033

Dear Mr. Tsosie,

The Arizona Department of Education Audit Unit has conducted an audit of the Northeast Arizona Technological Institute of Vocational Education (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 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 FY2015, FY2016 and FY2017, which resulted in an overstatement of 236.39 ADM. As a result, the District was overfunded by \$1,330,639.54, 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 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 Northeast Arizona Technological Institute of Vocational 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 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, is a Joint Technical Education District (JTED) which had one central campus and nine satellite campuses during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2015, FY2016 and FY2017.

Table 1

**Northeast Arizona Technological Institute of Vocational Education
Total Students, Revenues and Expenditures
FY2015, FY2016 and FY2017
(Unaudited)**

	FY2015	FY2016	FY2017
Number of Teachers	5	5	2
Revenue			
Local	\$ 249,287	\$ 100,845	\$ (58,860)
Intermediate	\$ 175,203	\$ 204,713	\$ 161,887
State	\$ 3,201,738	\$ 3,416,010	\$ 3,239,078
Federal	\$ 77,592	\$ 56,421	\$ 81,515
Total Revenues	<u>\$ 3,703,820</u>	<u>\$ 3,777,989</u>	<u>\$ 3,423,620</u>
Total Expenditures	<u>\$ 2,520,461</u>	<u>\$ 2,820,927</u>	<u>\$ 3,011,353</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 523 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. Based on the bell schedule, the students should have been reported with 0.25 FTE for each class they were enrolled in. When a student’s FTE was reported incorrectly, an adjustment was made.
- ***Enrollment data*** – Auditors reviewed student schedules to determine if the enrollment data reported to ADE was correct. Auditors reviewed documentation to ensure students were enrolled, and compared the entry and exit dates to the student schedules. Auditors also looked at District records to ensure all students that attended were funded. Auditors made adjustments when they were needed.

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 STUDENTS’ FTE STATUS, RESULTING IN AN OVERPAYMENT OF \$985,201.17

Auditors determined that the District inaccurately reported students’ FTE status for 455 students in Fiscal Years 2015, 2016 and 2017. Specifically, auditors found that students were reported as 1.0 FTE regardless of how many classes the student was enrolled in. As a result of these errors, the District’s ADM was overstated by 195.43. Due to the inaccurate FTE for these students, the District received a net overpayment of \$985,201.17 in Basic State Aid which the District must repay to ADE.

The District incorrectly calculated and reported FTE for 455 students

Auditors determined that the District improperly calculated the FTE status for its students for all three fiscal years audited. Auditors identified 455 high school students whose FTE status was incorrectly reported. The District reported all central campus students to ADE with a 1.0 FTE, regardless of how many classes they were taking. However, because the classes were less than 150 minutes, the FTE should have been reported as only 0.25 for each class enrolled in. As a result, the District’s ADM was overstated by 195.43, as shown in Table 2.

Table 2

**Northeast Arizona Technological Institute of Vocational Education
Number of Students with Incorrect FTE and Associated ADM Adjustment
FY2015, FY2016 and FY2017**

Fiscal Year	Students	ADM
2015	175	64.77
2016	136	66.09
2017	144	64.57
Total	<u>455</u>	<u>195.43</u>

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 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.” However, the courses offered at the District were only between 55-60 minutes long each. Since they did not meet the criteria for 0.75 FTE, A.R.S. § 15-393(N) further states “Notwithstanding any other law, the average daily membership for a pupil who is enrolled in a joint technical education course defined in section 15-391 and who does not meet the criteria specified in subsection P or Q of this

section shall be 0.25 for each course.”

For each of the three years audited, the District incorrectly reported that students at the central campus had a 1.0 FTE. However, since the students were only enrolled in one or two classes, the FTE reported for these students should only have been 0.25 or 0.5 respectively. As a result, the FTE status for 455 students was overstated. In the future, the District must ensure it complies with statute to properly calculate and report FTE.

The District was overpaid \$985,201.17 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 455 students. Specifically, the District was overpaid \$692,675.82 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. However, the District was paid Growth in FY2015, so the adjustment for FY2015 was increased by \$292,525.35. In total, the District was overpaid \$985,201.17. According to A.R.S. § 15-915, ADE needs to recoup the \$985,201.17 in overpaid Basic State Aid from the District for incorrectly reported FTE 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

**Northeast Arizona Technological Institute of Vocational Education
ADM Adjustment Due to Incorrect FTE and
Associated Funding Adjustment
FY2015, FY2016 and FY2017**

Fiscal Year	ADM	Basic State Aid	Growth	Total Funding Adjustment
2015	64.77	\$350,623.41	\$292,525.35	\$643,148.76
2016	66.09	\$342,052.41	\$0.00	\$342,052.41
2017	64.57	\$0.00	\$0.00	\$0.00
Total	195.43	\$692,675.82	\$292,525.35	\$985,201.17

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

Recommendations:

1. ADE must recoup \$985,201.17 in overpaid Basic State Aid from the District for incorrectly reported FTE for all three fiscal years audited.
2. The District should ensure that it properly calculates and reports students’ FTE pursuant to statute.

FINDING 2: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN OVERPAYMENT OF \$345,438.37

The District inaccurately reported the student enrollment data for 88 of its students for the years audited. Specifically, auditors determined that 66 students were reported to ADE for funding but did not attend and 22 students attended but were not reported to ADE for funding. As a result, the District's ADM was overstated by 40.96 for its students for the three fiscal years audited. Due to the inaccurate enrollment data, the District received an overpayment of \$345,438.37 for the three fiscal years audited which the District must repay to ADE pursuant to A.R.S. § 15-915.

The District inaccurately reported some student enrollment data

The District inaccurately reported the enrollment data for 88 students to ADE, which resulted in the District's ADM being overreported by 40.96. ADE External Guideline and Procedures GE-17¹ states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. According to A.R.S. § 15-901, the withdrawal date for students for FY2013 is the last day of actual attendance. For FY2014 and FY2015, the withdrawal date for students is the last day of actual attendance or excused absence. However, the District did not always adhere to these requirements. Specifically:

- 66 students were reported to ADE; however, the students did not attend the District during the year, which resulted in the District's ADM being overstated by 47.41.
- 22 students were not funded by ADE; however, District attendance documentation showed the students as being enrolled and attending. These students had failed an integrity check, but were not corrected to ensure the student could be processed and funded. This resulted in the District's ADM being understated by 6.45.

As shown in Table 4 (see page 7), data reporting errors resulted in a net ADM overstatement of 40.96 for FY2015, FY2016 and FY2017.

¹ ADE External Guidelines and Procedures GE-17 states: "For the purposes of determining Average Daily Membership (ADM) for a given school year at a given public school pursuant to ARS § 15-901 (A)(2), the first day of membership for continuing or pre-enrolled students, shall be defined as either the first day a student physically attends school or the first day that classroom instruction is offered, provided that such students physically attend school within the first ten school days. For all other students, the first day of membership shall be defined as the first day a student physically attends school."

Table 4

**Northeast Arizona Technological Institute of Vocational Education
ADM Adjustment Due to Enrollment Errors
FY2015, FY2016 and FY2017**

Fiscal Year	Did not Attend	Attended, but were not Funded	Total ADM Adjustment
2015	28.07	0.00	28.07
2016	19.34	(6.45)	12.89
2017	0.00	0.00	0.00
Total	<u>47.41</u>	<u>(6.45)</u>	<u>40.96</u>

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

The District must properly reconcile its enrollment data with ADE’s system

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 SAIS and reconcile them to the District’s SMS data to identify any discrepancies that would affect funding 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 \$345,438.37

Auditors determined that the District did not receive the correct amount of Basic State Aid due to incorrect enrollment data for 88 students. Specifically, the District was overpaid \$218,659.38 in Basic State Aid. However, the District was paid Growth in FY2015, so the adjustment for FY2015 was increased by \$126,778.99. In total, the District was overpaid \$345,438.37. According to A.R.S. § 15-915, ADE needs to recoup the \$345,438.37 in overpaid Basic State Aid from the District for the fiscal years audited. Table 5 (see page 8) shows the ADM and funding adjustments required for the District for FY2015, FY2016 and FY2017.

Table 5

**Northeast Arizona Technological Institute of Vocational Education
ADM Adjustment Due to Enrollment Errors and
Associated Funding Adjustment
FY2015, FY2016 and FY2017**

Fiscal Year	ADM	Basic State Aid	Growth	Total Funding Adjustment
2015	28.07	\$151,958.40	\$126,778.99	\$278,737.39
2016	12.89	\$66,700.98	\$0.00	\$66,700.98
2017	0.00	\$0.00	\$0.00	\$0.00
Total	<u>40.96</u>	<u>\$218,659.38</u>	<u>\$126,778.99</u>	<u>\$345,438.37</u>

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

Recommendations:

1. The District must repay ADE \$345,438.37 in Basic State Aid due to incorrectly reported enrollment data.
2. The District must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.
3. The District must review its internal and reporting practices to ensure that it properly documents the actual enrollment of students pursuant to statute.

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 \$1,330,639.54 required to be repaid to ADE—Auditors identified an overall funding adjustment of \$1,330,639.54 for the three fiscal years audited due to incorrect FTE reported, and incorrect enrollment data.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2015, FY2016 and FY2017.

Table 6

**Northeast Arizona Technological Institute of Vocational Education
ADM and Funding Adjustments
FY2015, FY2016 and FY2017**

	FY2015		FY2016		FY2017		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Incorrect FTE	64.77	\$643,148.76	66.09	\$342,052.41	64.57	\$0.00	\$985,201.17
Incorrect Enrollment Data	<u>28.07</u>	<u>\$278,737.39</u>	<u>12.89</u>	<u>\$66,700.98</u>	<u>0.00</u>	\$0.00	<u>\$345,438.37</u>
Total Adjustment	<u>92.84</u>	<u>\$921,886.15</u>	<u>78.98</u>	<u>\$408,753.39</u>	<u>64.57</u>	\$0.00	<u>\$1,330,639.54</u>

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