



Arizona Department of Education

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Average Daily Membership Audit Report Desert Heights Charter Schools Fiscal Years 2015, 2016, and 2017

Report Number—18-23
March 28, 2018



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Diane Douglas
Superintendent of
Public Instruction

March 28, 2018

Mark Jiles, District Superintendent
Desert Heights Charter Schools
5821 W Beverly Ln
Glendale, AZ 85306

Dear Mr. Jiles,

The Arizona Department of Education Audit Unit has conducted an audit of the Desert Heights Charter Schools (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 the School had no issues in Fiscal Years 2015 and 2016, but did not accurately report some student enrollment data for Fiscal Year 2017, which resulted in an overstatement of 3.5 ADM. As a result, the School was overfunded by \$21,095.43, which the School must repay to ADE.

We appreciate the cooperation and assistance provided by the School's administration during 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 Desert Heights Charter Schools (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for Fiscal Years 2015, 2016, and 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.

School information— The School has two campuses in Glendale, Arizona and serves grades KG through 12. In Fiscal Years 2015, 2016, and 2017, the School offered instruction in grades KG through 4 at Desert Heights Charter School and grades 5 through 12 at Desert Heights Preparatory Academy.

Table 1 presents the School’s unaudited student, staffing and financial information for Fiscal Years 2015, 2016, and 2017.

Table 1

**Desert Heights Charter Schools
Total Students, Revenues and Expenditures
Fiscal Years 2015, 2016, and 2017
(Unaudited)**

	2015	2016	2017
Students Enrolled	801	863	813
Number of Teachers	53	46	50
Revenue			
Local	\$300,405	\$33,729	\$363,957
County	0	0	0
State	4,884,691	5,514,608	5,287,254
Federal	<u>334,344</u>	<u>357,675</u>	<u>278,670</u>
Total Revenues	<u>5,519,440</u>	<u>5,906,012</u>	<u>5,929,881</u>
Total Expenditures	<u>\$5,562,049</u>	<u>\$5,495,442</u>	<u>\$5,566,156</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Years 2015, 2016, and 2017.

SCOPE AND METHODOLOGY

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 Fiscal Years 2015, 2016, and 2017.

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

- ***Instructional hours***—Auditors reviewed the School’s bell schedules and calendars for the fiscal years audited and determined that the School provided at least the minimum number of instructional hours as required by statute for each grade level.
- ***Enrollment data***—Auditors compared the School’s student management system to ADE’s system and identified 289 of the 2,627 students for further evaluation. Auditors reviewed these 289 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 auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***Special Education (SPED) Data***—Auditors reviewed the students to determine if any were also funded for one of the special education categories. No material SPED adjustments were identified.
- ***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 Desert Heights Charter Schools’ administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN OVERPAYMENT OF \$21,095.43

The School had no findings for Fiscal Years 2015 and 2016, but inaccurately reported the student enrollment data for 7 of its students for Fiscal Year 2017. Specifically, auditors determined these 7 students were reported to ADE’s Student Data System for funding but did not attend. In total, the School’s ADM was overstated by 3.50 for its students for the three fiscal years audited. As a result, the School was overfunded by \$21,095.43, which the School must pay pursuant to A.R.S. § 15-915.

The School inaccurately reported some student enrollment data

The School inaccurately reported the enrollment data for 7 students to ADE, which resulted in the School’s ADM being overreported by 3.50. ADE External Guideline and Procedures GE-17 states that continuing students who do not attend school during the first ten days school is in session are subject to summer withdrawal. According to A.R.S. § 15-901, the withdrawal date for students for FY2014 and thereafter, the withdrawal date for students is the last day of actual attendance or excused absence.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 3.50 for Fiscal Year 2017.

Table 2

**Desert Heights Charter Schools
ADM adjustments due to
enrollment data errors
Fiscal Year 2017**

Fiscal Year	2017
Student Count	7
ADM	3.50

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

The School must properly reconcile its enrollment data with ADE

The School 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 School 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 School should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE and reconcile them to the School's SMS data to identify any discrepancies and correct any errors identified. The School should review its internal reporting practices and ensure that it properly documents the actual entry and exit dates of students pursuant to statute.

The School was overfunded by \$21,095.43

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for fiscal year 2017. As a result, the School was overfunded by \$21,095.43 in Basic State Aid, which the School must pay to ADE pursuant to A.R.S. § 15-915. Table 3 shows the ADM and funding adjustment due to enrollment data errors.

Table 3

**Desert Heights Charter Schools
ADM and funding adjustments due to enrollment data errors
Fiscal Year 2017**

	2017
ADM	3.50
Basic State Aid	\$ 21,095.43

Source: Auditor analysis of School records, A.R.S. § 15-901.

Recommendations:

1. The School 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 School must pay ADE \$21,095.43 in Basic State Aid due to inaccurately reported enrollment data.

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 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.

Basic State Aid adjustment of \$21,095.43 required to be paid to ADE—Auditors identified an overall funding adjustment of \$21,095.43 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 School for Fiscal Year 2017.

Table 4

**Desert Heights Charter Schools
ADM and funding adjustments
Fiscal Year 2017**

	2017	
	ADM	Funding
Enrollment Data	3.50	\$ 21,095.43

Source: Auditor analysis of School records and ADE’s System data for Fiscal Years 2015, 2016, and 2017.