



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Window Rock Unified District Fiscal Years 2015, 2016 and 2017

Report Number—18-25

April 26, 2018



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Diane Douglas
Superintendent of
Public Instruction

April 26, 2018

Anna Marie Perry, Business Manager
Window Rock Unified District
P O Box 559
Fort Defiance, AZ 86504

Dear Ms. Perry,

The Arizona Department of Education Audit Unit has conducted an audit of the Window Rock Unified 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 incorrectly reported the enrollment data for one student, which resulted in its ADM being understated by 0.81. As a result, the District was underfunded by \$275.60 which the ADE must repay to the District. Additionally, auditors determined that the District failed to properly maintain some required documentation in student cumulative files.

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

TABLE OF CONTENTS

	<u>Page</u>
Introduction and Background.....	1
Scope and Methodology	3
Finding 1: The District did not accurately report some student data, resulting in an underpayment of \$275.60.....	4
The District inaccurately reported some student data	4
The District must properly reconcile its enrollment data with ADE.....	5
The District was underfunded by \$275.60.....	5
Recommendations	5
Finding 2: The District did not properly maintain some student records as required by statute and guideline	6
The District did not properly maintain student file documentation	6
Recommendations	7
ADM and Funding Adjustments.....	8

TABLE OF CONTENTS (CONT'D)

	<u>Page</u>
Tables:	
1 Window Rock Unified District Total Students, Revenues and Expenditures FY2015, FY2016 and FY2017 (Unaudited)	2
2 Window Rock Unified District Students and ADM Adjustments Due to Enrollment Data Errors FY2015, FY2016 and FY2017.....	4
3 Window Rock Unified District ADM and Funding Adjustments Due to Enrollment Data Errors FY2015	5
4 Window Rock Unified District Student Cumulative File Documentation FY2015, FY2016 and FY2017.....	6
5 Window Rock Unified District ADM and Funding Adjustments FY2015, FY2016 and FY2017.....	8

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Window Rock Unified 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 District funding be made in the current budget year. In case of hardship, Districts 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 Window Rock, Arizona, had one high school, one middle school, one intermediate school, two elementary schools and one preschool during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2015, FY2016 and FY2017.

Table 1

**Window Rock Unified District
Total Students, Revenues and Expenditures
FY2015, FY2016 and FY2017
(Unaudited)**

	FY2015	FY2016	FY2017
Students Enrolled	2,170	1,952	1,890
Number of Teachers	118	104	132
Revenue			
Local	\$ 1,278,294	\$ 1,166,257	\$ 868,021
Intermediate	\$ 684,870	\$ 585,035	\$ 704,614
State	\$ 10,048,834	\$ 9,309,162	\$ 10,287,604
Federal	\$ 15,367,504	\$ 15,306,839	\$ 17,791,941
Total Revenues	<u>\$ 27,379,502</u>	<u>\$ 26,367,293</u>	<u>\$ 29,652,180</u>
Total Expenditures	<u>\$ 22,996,899</u>	<u>\$ 25,711,223</u>	<u>\$ 30,542,338</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 613 of 6,115 students over the three fiscal years audited. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff. Specifically:

- **Enrollment data** – Auditors reviewed student schedules, enrollment dates, and attendance data to determine if the enrollment data reported to ADE was correct. Auditors compared the entry and exit dates 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.
- **Student Files**—Auditors reviewed student files to ensure that they maintained required residency documentation. Auditors made note if files did not contain all the documentation that was required to be kept in them by statute and ADE guidelines.
- **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. Auditors calculated the FTE based on the classes and time a student was enrolled in the District, and compared the FTE to what was reported to ADE. 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.
- **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 the District’s administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN UNDERPAYMENT OF \$275.60

Auditors determined that the District inaccurately reported the student data for one student for FY2015. Specifically, auditors found that one student had withdrawn and then reenrolled later in the year, but the reenrollment was not reported to ADE. In total, the District’s ADM was underreported by 0.81. As a result, the District was underfunded by \$275.60 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to repay these monies to the District.

The District inaccurately reported some student data

The District inaccurately reported one student’s enrollment data to ADE, which resulted in the District’s ADM being understated by 0.81.

According to ADE External Guideline and Procedures GE-17, with the exception of pre-enrolled students, the enrollment dates for a student are the first day of actual attendance and the last day of actual attendance. There were no students with any discrepancies identified for FY2016 or FY2017; however, the District did not adhere to these requirements in FY2015. Specifically, for the students that were sampled:

- One student had withdrawn from the District, and then reenrolled at a later date. However, the reenrollment of this student was not reported to ADE for funding. As a result, the ADM for the District was underreported by 0.81.

As shown in Table 2, data reporting errors resulted in an ADM understatement of 0.81 for the three fiscal years audited.

Table 2

**Window Rock Unified District
Students and ADM Adjustments
Due to Enrollment Data Errors
FY2015, FY2016 and FY2017**

	Students	ADM
FY2015	1	(0.81)
FY2016	0	0.00
FY2017	0	0.00
Total	<u>1</u>	<u>(0.81)</u>

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

The District must properly reconcile its enrollment data with ADE

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 ADE and reconcile them to the District's SMS data to identify any discrepancies 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 underfunded by \$275.60

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for FY2015. The student data error reported by the District resulted in its ADM being understated by 0.81. This resulted in a Basic State Aid adjustment of \$4,249.63. However, due to the Growth formulas, this amount needs to be decreased by \$3,974.03. As a result, the District was underfunded by \$275.60, which ADE must repay to the District. Table 3 shows the ADM and funding adjustments required for the District for FY2015, FY2016 and FY2017.

Table 3

**Window Rock Unified District
ADM and Funding Adjustments Due to
Enrollment Data Errors
FY2015**

	FY2015
ADM Adjustments	(0.81)
Basic State Aid	\$(4,249.63)
Growth	\$3,974.03
Total Funding Adjustments	\$(275.60)

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

Recommendations:

1. ADE must repay to the District \$275.60 in Basic State Aid due to incorrectly reported student data.
2. The District needs to ensure that it properly calculates and reports students' FTE and enrollments pursuant to statute and ADE guidelines.

FINDING 2: THE DISTRICT DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE

Auditors determined that the District failed to properly maintain residency documentation for some students as required by statute and ADE guidelines. The District did not properly maintain required documentation in some of its student cumulative files. In the future, the District should properly maintain these documents to ensure compliance with statute and ADE guidelines.

The District did not properly maintain student file documentation

Auditors determined that the District failed to maintain residency documentation for some students as required by statute and ADE guidelines. According to A.R.S. § 15-802 and the ADE Arizona Residency Guideline, school districts and charter schools are required to maintain verifiable documentation of Arizona residency in the student’s cumulative file. This documentation must be provided each time a student enrolls in a school district or charter school, and reaffirmed during the annual registration process. The ADE Arizona Residency Guideline identifies an approved list of options a parent or legal guardian may provide to the school district or charter school to meet these requirements.

The District did not maintain the proper documentation required by statute and ADE’s residency guideline. Of the 75 students sampled, 22 of the student files did not have the proper residency documentation. While the District did obtain verifiable documentation of residency for these 22 students in later years, it was not obtained at the time of enrollment as the ADE Arizona Residency Guideline requires. Table 4 lists the student file documentation maintained by the District for FY2015, FY2016 and FY2017.

Table 4

**Window Rock Unified District
Student Cumulative File Documentation
FY2015, FY2016 and FY2017**

	Total Sampled	Contained all Required Documentation	Missing Verifiable Proof at time of enrollment
FY2015	25	8	17
FY2016	25	21	4
FY2017	25	24	1
Total	<u>75</u>	<u>53</u>	<u>22</u>

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

In the future, the District must ensure that it complies with statute by collecting and maintaining in each student's cumulative file copies of verifiable residency at the time of enrollment as required by law.

Recommendation:

1. The District must comply with statute and collect and maintain in each student's cumulative file copies of verifiable residency at the time of enrollment as required by law.

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 \$275.60 required to be repaid to the District—Auditors identified an overall funding adjustment of \$275.60 for the three fiscal years audited due to improperly reported enrollment dates.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2015, FY2016 and FY2017.

Table 5

**Window Rock Unified District
ADM and Funding Adjustments
FY2015, FY2016 and FY2017**

	FY2015	FY2016	FY2017	Total
ADM Adjustments	(0.81)	0.00	0.00	(0.81)
Funding Adjustments	<u>\$(275.60)</u>	<u>\$0.00</u>	<u>\$0.00</u>	\$(275.60)

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