



Arizona Department of Education

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Average Daily Membership Audit Report Kaizen Education Foundation dba Maya High School Fiscal Years 2015, 2016, and 2017

Report Number—19-5
August 24, 2018



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State of Arizona
Department of Education



Diane Douglas
Superintendent of
Public Instruction

August 24, 2018

Michele Kaye, Business Manager
Kaizen Education Foundation dba Maya High School
7878 N 16th St. STE 150
Phoenix, AZ 85020

Dear Ms. Kaye,

The Arizona Department of Education (ADE) Audit Unit has conducted an audit of the Kaizen Education Foundation dba Maya High School (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 did not accurately report some student enrollment data for fiscal years 2015, 2016, and 2017, which resulted in an overstatement of 0.96 ADM. As a result, the School was overfunded by \$5,530.37, which the School must pay to ADE.

We appreciate the cooperation and assistance provided by the School's administration during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Melissa Moreno".

Melissa Moreno,
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 Kaizen Education Foundation dba Maya High School (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—In fiscal years 2015, 2016, and 2017, the School offered instruction in grades 9 through 12 in Phoenix, Arizona.

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

Table 1

**Kaizen Education Foundation dba Maya High School
Total Students, Revenues and Expenditures
Fiscal years 2015, 2016, and 2017
(Unaudited)**

	2015	2016	2017
Students Enrolled	392	380	407
Number of Teachers	14	18	14
Revenue			
Local	\$19,366	\$ 18,181	\$ 52,604
County	0	0	0
State	\$ 2,938,442	\$ 2,886,547	\$ 3,134,038
Federal	<u>\$ 354,338</u>	<u>\$ 361,521</u>	<u>\$ 391,237</u>
Total Revenues	<u>\$ 3,312,146</u>	<u>\$ 3,266,249</u>	<u>\$ 3,577,879</u>
Total Expenditures	<u>\$ 2,702,900</u>	<u>\$ 2,578,229</u>	<u>\$ 2,824,670</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 212 of the 2,109 students for further evaluation. Auditors reviewed these 212 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 made adjustments to the funded ADM.
- ***Eligibility for funding*** – Auditors compared student birth dates to funded enrollment dates to determine if the student was eligible for funding. When a student was incorrectly funded after their 22nd birthday, auditors made an adjustment to the ineligible enrollment days.
- ***FTE calculations*** – Auditors reviewed the bell schedules and student schedules to determine whether the School 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 School, and compared the FTE to what was reported to ADE. When the FTE was incorrect, auditors made an adjustment.
- ***Student files***—Auditors reviewed student files to ensure that they maintained required documentation, including birth certificates, immunization, and residency documentation. No findings were identified for this area.
- ***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 School’s 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 \$5,530.37

The School inaccurately reported the student enrollment data for 10 of its students for fiscal years 2015, 2016, and 2017. Specifically, auditors determined that 6 students had FTE reported incorrectly, 3 students had aged out and were no longer eligible to receive state aid, and 1 student was reported to ADE's System for funding but did not attend. In total, the School's ADM was overstated by 0.96 for its students for the three fiscal years audited. Due to the inaccurate enrollment data, the School received a net overpayment of \$5,530.37 in Basic State Aid for the three fiscal years audited which the School must pay to ADE pursuant to A.R.S. § 15-915.

The School inaccurately reported some student enrollment data

The School inaccurately reported the enrollment data for 10 students to ADE due to various errors, which resulted in the School's ADM being overreported by 0.96. 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 is the last day of actual attendance or excused absence. Additionally, A.R.S. § 15-901 states that, for a high school student to be reported as a 1.0 FTE, the student must be enrolled in at least four courses which meet at least 123 hours annually each and total at least 720 instructional hours for the year.² According to A.R.S. § 15-764, a student can attend until the student's 22nd birthday or if receiving SPED services, until the end of the fiscal year in which their 22nd birthday resides. However, the School did not always adhere to these requirements. Specifically:

- 6 students were reported with incorrect FTE, which resulted in the School's ADM being overstated by 0.02.

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."

² Pursuant to A.R.S. § 15-901, a full time student (1.0 FTE) in grades 9 through 12 must be scheduled for and attending at least 720 hours of instruction and at least four courses each of which meets for at least 123 hours annually; a 0.75 FTE student must be scheduled for at least 540 hours of instruction and at least three courses each of which meets for at least 123 hours annually, a 0.50 FTE student must be scheduled for at least 360 hours of instruction and at least two courses each of which meets for at least 123 hours annually and a 0.25 FTE student must be scheduled for at least 180 hours of instruction and at least one course which meets for at least 123 hours annually.

- 3 students became 22 years of age with no special education needs mid-year and were funded until the end of their enrollment and not the day of their 22nd birthday, which resulted in the School's ADM being overstated by 0.87.
- 1 student was reported to ADE'S System; however, the student did not attend and no documentation showed the student as being enrolled and attending, which resulted in the School's ADM being overstated by 0.07.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 0.96 for fiscal years 2015, 2016, and 2017.

Table 2

**Kaizen Education Foundation dba Maya High School
ADM adjustments due to enrollment data errors
Fiscal years 2015, 2016, and 2017**

	2015	2016	2017	Total
Incorrect FTE	0.03	0.03	(0.04)	0.02
Aged Out	0	0.87	0	0.87
Did not attend	0	0	0.07	0.07
Total	0.03	0.90	0.03	0.96

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

The School must properly reconcile its enrollment data with ADE data

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. Additionally, the School must ensure it complies with statute and ADE guidelines to properly calculate and report student FTE. Finally, the School should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE'S System and reconcile them to the School's SMS data to identify any discrepancies that would affect funding and correct any errors identified.

The School was overfunded by \$5,530.37

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 years 2015, 2016, and 2017. The enrollment data errors reported by the School resulted in its ADM being overstated by 0.96 for the three fiscal years audited. As a result, the School was overfunded by \$5,530.37 which the School must pay to ADE pursuant to A.R.S. § 15-915.

Table 3

**Kaizen Education Foundation dba Maya High School
ADM and funding adjustments due to enrollment data errors
Fiscal years 2015, 2016, and 2017**

	2015	2016	2017	Total
ADM	0.03	0.90	0.03	0.96
Total funding adjustments	\$ 219.03	\$ 5,057.69	\$ 253.65	\$ 5,530.37

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

Recommendations:

1. The School must pay ADE \$5,530.37 in Basic State Aid due to incorrectly reported enrollment data.
2. The School must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.
3. The School must review its internal reporting practices to ensure that it properly documents the actual entry and exit dates of students pursuant to statute.
4. The School must ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.

ADM AND FUNDING ADJUSTMENTS

A.R.S. § 15-915 requires that ADE makes corrections for audit findings to 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 \$5,530.37 required to be paid to ADE—Auditors identified an overall funding adjustment of \$5,530.37 for the three fiscal years audited due to inaccurate student enrollment.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal year 2015, 2016, and 2017.

Table 4

**Kaizen Education Foundation dba Maya High School
ADM and funding adjustments
Fiscal years 2015, 2016, and 2017**

	2015	2016	2017	Total
ADM	0.03	0.90	0.03	0.96
Total funding adjustment	\$ 219.03	\$ 5,057.69	\$ 253.65	\$ 5,530.37

Source: Auditor analysis of ADE and School student and financial data for fiscal years 2015, 2016, and 2017.