



## Arizona Department of Education

The Audit Unit

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Phoenix, Arizona 85007

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

Report Number—19-13  
October 30, 2018



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State of Arizona  
Department of Education



October 30, 2018

Dan Streeter, Superintendent  
Humboldt Unified School District  
6411 N. Robert Road  
Prescott Valley, AZ 86314

Dear Superintendent,

The Arizona Department of Education Audit Unit has conducted an audit of the Humboldt 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 incorrectly reported the enrollment data of 57 students, which resulted in its ADM being overstated by 16.92. As a result, the District was overfunded by \$62,805.35 which the District must repay to ADE. 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 blue ink, appearing to read "Melissa Moreno".

Melissa Moreno,  
Chief Auditor

**Diane M. Douglas, Superintendent of Public Instruction**

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# INTRODUCTION AND BACKGROUND

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Humboldt 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 Humboldt, Arizona, had 1 preschool, 6 elementary schools, 2 middle schools and 1 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**

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

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<b>Students Enrolled</b>	<b>5,827</b>	<b>5,834</b>	<b>5,715</b>
<b>Number of Teachers</b>	<b>283</b>	<b>277</b>	<b>284</b>
<b>Revenue</b>			
Local	\$17,444,179	\$18,017,886	\$17,641,967
Intermediate	\$4,185,293	\$4,135,779	\$4,053,485
State	\$19,010,116	\$18,171,220	\$18,520,405
Federal	\$5,202,988	\$5,550,708	\$6,115,970
<b>Total Revenues</b>	<b><u>\$45,842,576</u></b>	<b><u>\$45,875,593</u></b>	<b><u>\$46,331,827</u></b>
<b>Total Expenditures</b>	<b><u>\$43,800,327</u></b>	<b><u>\$44,157,792</u></b>	<b><u>\$45,976,193</u></b>

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

## SCOPE AND METHODOLOGY

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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 1,921 of 18,761 students over the three fiscal years audited. 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. 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 documentation such as birth certificates, immunization records, and supporting residency documentation. Auditors identified files that 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. When the FTE was incorrect, auditors made an adjustment.
- **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 (SPED) category. When a student with a SPED category also had an adjustment, auditors also made an adjustment to the SPED weight.
- **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 OVERPAYMENT OF \$62,805.35**

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Auditors determined that the District inaccurately reported the student data for 57 students for FY2015, FY2016 and FY2017. Specifically, auditors found that 49 students had an incorrectly reported FTE, two students had incorrect enrollment dates, two students had not attended the District, one student with 14 consecutive unexcused absences in a row, and lastly three students were incorrectly reported as Homebound. Additionally, seven of these students were also reported and funded for a special education category. As a result, the District's weighted special education ADM was over reported by 0.77. In total, the District's ADM was over reported by 16.92. As a result, the District was overfunded by \$62,805.35 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the District.

## **The District inaccurately reported some student data**

The District inaccurately reported 57 students' enrollment data to ADE, which resulted in the District's ADM being overstated by 16.92.

According to A.R.S. § 15-901, 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. A student who does not meet these requirements is considered a part-time student and their FTE status must be reduced based on the number of actual instructional hours provided and courses enrolled.<sup>1</sup> In addition, according to ADE External Guideline and Procedures GE-17 and EX-1, 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 or excused absence. Finally, A.R.S. § 15-901 specifies the requirements for a student to be reported as Homebound.

However, the District did not always adhere to these requirements. Specifically, for the students that were sampled:

- 49 students had an incorrect FTE reported. As a result, the ADM for the District was overreported by 16.28.
- 2 students had incorrect enrollment dates reported. As a result, the ADM for the District was underreported by 1.20.

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<sup>1</sup> 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.

- 2 students were reported as attended but did not actually attend the District. As a result, the ADM for the District was overreported by 0.55.
- 1 student had 14 consecutive unexcused absences and should have been withdrawn. As a result, the ADM for the District was overreported by 0.07.
- 3 students did not meet the requirements for Homebound. As a result, the ADM for the District was overreported by 0.45.
- 7 students that were identified with an adjustment also had a SPED weight, which resulted in the weighted SPED ADM for the District to be overstated by 0.77.

As shown in Table 2, enrollment data errors resulted in an ADM overstatement of 16.92 for the three fiscal years audited.

**Table 2**

**Humboldt Unified School District  
ADM Adjustments  
Due to Enrollment Data Errors  
FY2015, FY2016 and FY2017**

	<b>FTE</b>	<b>Incorrect Enrollment</b>	<b>Did Not Attend</b>	<b>10 Day</b>	<b>Homebound</b>	<b>SPED</b>	<b>Total</b>
FY2015	6.92	-	-	-	0.26	0.59	7.77
FY2016	5.05	(1.20)	0.55	-	0.19	0.18	4.77
FY2017	4.31	-	-	0.07	-	-	4.38
<b>Total</b>	<b><u>16.28</u></b>	<b><u>(1.20)</u></b>	<b><u>0.55</u></b>	<b><u>0.07</u></b>	<b><u>0.45</u></b>	<b><u>0.77</u></b>	<b><u>16.92</u></b>

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

## **The District failed to comply with statute and ADE guidelines**

The District did not follow statute and ADE guidelines when calculating and reporting student data.

Auditors determined that 49 of the District’s students did not meet the statutory and ADE guideline requirements for full time enrollment (FTE). According to analysis of the District’s bell schedules and calendars for the District’s high school and alternative high school, auditors determined that as long as a student was enrolled in four courses that were at least 123 hours long as well as lunch, they would receive enough hours and courses to be considered full time. However, when a student was not enrolled in a class that met at least 123 hours annually, the class could not be counted toward the 4 classes to be considered full time. The FTE that was reported for 49 students was not correct based on the number of courses and time the students were enrolled in. The District must ensure it complies with statute and ADE guidelines to properly calculate and report FTE.

The District can also 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 collects and maintains documents for Homebound students pursuant to statute.

**The District was overfunded by \$62,805.35**

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate student data reported to ADE for FY2015, FY2016 and FY2017. The student data incorrectly reported by the District resulted in its ADM being overstated by 16.92. Due to the funding formula transition from using prior year data to current year data, FY2017 ADM did not have Basic State Aid adjustments other than the impact to District Additional Assistance (DAA) for the following year. As a result, the District was overfunded by \$62,805.35 in Basic State Aid, which ADE must recoup from the District. Table 3 shows the ADM and funding adjustments required for the District for FY2015, FY2016 and FY2017.

**Table 3**

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

<b>Fiscal Year</b>	<b>ADM</b>	<b>Total Funding Adjustment</b>
FY2015	7.77	\$40,129.94
FY2016	4.77	\$22,187.97
FY2017	4.38	\$487.44
<b>Total</b>	<b><u>16.92</u></b>	<b><u>\$62,805.35</u></b>

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

**Recommendations:**

1. ADE must recoup from the District \$62,805.35 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**

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Auditors determined that the District failed to properly maintain residency, birth certificate and immunization 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.

Auditors also determined that the District failed to maintain birth certificate documentation for some students as required by statute. According to A.R.S. § 15-828, a photocopy of the student's birth certificate or other reliable proof of the student's identity and age must be placed in the student's file.

In addition, auditors determined that the District failed to maintain immunization documentation for some students as required by statute. Accord to A.R.S. § 15-872, "A pupil shall not be allowed to attend school without submitting documentary proof to the school administrator unless the pupil is exempted from immunization pursuant to section 15-873."

The District did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 45 students sampled, 24 of the student files did not have the proper residency documentation obtained at the time of enrollment as the ADE Arizona Residency Guideline requires. In addition, one student did not have a birth certificate in their file and two students did not have immunization record documentation in their file. Table 4 lists the student file documentation maintained by the District for FY2015, FY2016 and FY2017.

**Table 4**

**Humboldt Unified School District  
Student Cumulative File Documentation  
FY2015, FY2016 and FY2017**

	<b>Total Sampled</b>	<b>Missing Residency Documentation</b>	<b>Missing Birth Certificate</b>	<b>Missing Immunization</b>
FY2015	15	11	1	2
FY2016	15	9	0	0
FY2017	15	4	0	0
<b>Total</b>	<b>45</b>	<b>24</b>	<b>1</b>	<b>2</b>

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, birth certificate and immunization documentation as required by law.

**Recommendations:**

1. The District must comply with statute and collect and maintain in each student's cumulative file copies of verifiable residency, birth certificate and immunization documentation as required by law.
2. The District needs to ensure it maintains all required documentation for students that attend the District.

# ADM and Funding Adjustments

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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 \$62,805.35 required to be repaid by the District***—Auditors identified an overall funding adjustment of \$62,805.35 for the three fiscal years audited due to improperly reported FTE and student data.

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

**Table 5**

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

	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>Total</b>
ADM Adjustments	7.77	4.77	4.38	<b>16.92</b>
Funding Adjustments	<u>\$40,129.94</u>	<u>\$22,187.97</u>	<u>\$ 487.44</u>	<b><u>\$62,805.35</u></b>

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