



Arizona Department of Education

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Average Daily Membership Audit Report North Star Charter School, Inc. Fiscal Years 2015, 2016 and 2017

Report Number—19-11
September 28, 2018



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State of Arizona
Department of Education



Diane Douglas
Superintendent of
Public Instruction

September 28, 2018

Kurt Huzar, Executive Director
North Star Charter School, Inc.
4200 N. 99th Avenue
Phoenix, Arizona 85037

Dear Executive Director Huzar,

The Arizona Department of Education Audit Unit has conducted an audit of the North Star Charter School, Inc. (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 incorrectly reported some enrollment data, which resulted in its ADM being overstated by 15.16. Additionally, auditors determined that the School incorrectly reported AOI enrollment data, which resulted in its ADM being overstated by 4.78. These errors resulted in an overstatement of 19.95 ADM and a net overpayment of \$126,241.69 in Basic State Aid, which must be repaid to ADE by the School pursuant to state law. Furthermore, auditors determined that the School failed to properly maintain some required documentation.

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 North Star Charter School, Inc. (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

**North Star Charter School, Inc.
Total students, revenues and expenditures
Fiscal years 2015, 2016 and 2017
(Unaudited)**

	2015	2016	2017
Students enrolled	233	189	192
Number of teachers	6	6	7
Revenue			
Local	\$ 72	\$ 37,237	\$ 16,725
County	0	0	0
State	1,253,303	1,762,486	1,380,984
Federal	28,402	49,032	61,678
Total revenues	<u>1,281,777</u>	<u>1,848,755</u>	<u>1,459,387</u>
Total expenditures	<u>\$ 1,179,152</u>	<u>\$ 1,639,402</u>	<u>\$ 1,895,929</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 95 of the 772 students for further evaluation. Auditors reviewed these 95 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 or the audited FTE differed from the funded FTE for a student, auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***Arizona online instruction (AOI) data***— Auditors compared 100% of the Arizona Online Instruction data that was reported to ADE to the AOI data from the School for the fiscal years audited. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. If the data reported to ADE was incorrect, an adjustment was determined.
- ***Student files***—Auditors reviewed student files to ensure that they maintained required documentation, including birth certificates, immunization, and residency documentation
- ***Special education (SPED) data***— Auditors reviewed the students to determine if any were also funded for one of the special education categories. When students with a special education category also had an adjustment, auditors made an adjustment to the special education weight as well.
- ***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 North Star Charter School, Inc.’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 \$96,073.76

The School inaccurately reported the student enrollment data for 54 of its students for fiscal years 2015, 2016 and 2017. Specifically, auditors determined that 36 students had FTE reported incorrectly, 17 students had incorrect enrollment dates and 1 student was not reported to ADE's System for funding but attended. Furthermore, 1 student had an additional Special Education adjustment, which resulted in the School's Special Education weighted ADM being overstated by 1.02. In total, the School's ADM was overstated by 15.16 for its students for the three fiscal years audited. Due to the inaccurate enrollment data, the School received a net overpayment of \$96,073.76 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 54 students to ADE due to various errors, which resulted in the School's ADM being overstated by 15.16. 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.¹ ADE External Guideline and Procedures GE-17² states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. However, the School did not always adhere to these requirements. Specifically:

- 36 students had FTE reported incorrectly, which resulted in the School's ADM being overstated by 11.57.

¹ 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 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.*"

- 17 students had incorrect enrollment dates, which resulted in the School’s ADM being overstated by 2.69.
- 1 student was not reported to ADE’s System; however, documentation showed the student as being enrolled and attending, which resulted in the School’s ADM being understated by 0.11.
- 1 student had an additional Special Education adjustment, which resulted in the School’s Special Education weighted ADM being overstated by 1.02.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 15.16 for fiscal years 2015, 2016 and 2017.

Table 2

**North Star Charter School, Inc.
ADM adjustments due to enrollment data errors
Fiscal years 2015, 2016 and 2017**

	2015	2016	2017	Total
Incorrect FTE	5.76	2.08	3.74	11.57
Enrollment dates	1.12	1.57	-	2.69
Attended	-	-	(0.11)	(0.11)
SPED	-	-	1.02	1.02
Total	6.88	3.64	4.65	15.16

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

The School must properly reconcile its enrollment data with ADE

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 \$96,073.76

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 15.16 for the three fiscal years audited. As a result, the School was overfunded by \$96,073.76 which the School must pay to ADE pursuant to A.R.S. § 15-915.

Table 3

**North Star Charter School, Inc.
ADM and funding adjustments due to enrollment data errors
Fiscal years 2015, 2016 and 2017**

	2015	2016	2017	Total
ADM	6.88	3.64	4.65	15.16
Total funding adjustments	\$ 45,801.90	\$ 24,317.70	\$ 25,954.16	\$ 96,073.76

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

Recommendations:

1. The School must pay ADE \$96,073.76 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.
3. The School must ensure that it properly calculates and reports students' enrollment dates and FTE pursuant to statute and ADE guidelines.

FINDING 2: THE SCHOOL DID NOT ACCURATELY REPORT AOI DATA RESULTING IN AN OVERPAYMENT OF \$30,167.93

The School did not accurately report enrollment data for 678 of its AOI students to ADE for all three fiscal years audited. Specifically, auditors found that 642 students had been reported as full time but were part time, 31 students were not reported to ADE’s System and 5 students were reported to ADE’s System with incorrect minutes. As a result, the School’s weighted AOI ADM was overstated by 4.78. This led to the School being overfunded by \$30,167.93 which the School must pay to ADE according to A.R.S. § 15-915.

The School inaccurately reported some AOI enrollment data

Auditors determined that student data for 678 of its AOI students was inaccurate, which resulted in the School’s weighted AOI ADM being overstated by 4.78 for the fiscal years audited, as follows:

- 642 students were incorrectly reported as full time and should have been reported as part time.
- 31 students were not reported to ADE’s System; however, the students were enrolled and attended.
- 5 students were reported to ADE’s System with incorrect AOI minutes.

As shown in Table 4, AOI data reporting errors resulted in a net weighted ADM overstatement of 4.78 for the three fiscal years audited.

Table 4

**North Star Charter School, Inc.
AOI ADM Adjustments
Fiscal years 2015, 2016 and 2017**

Adjustments	AOI weighted ADM adjustment			
	2015	2016	2017	Total
Full time	14.47	18.87	36.66	70.00
Part time	(12.94)	(17.20)	(35.08)	(65.22)
Total	1.52	1.67	1.59	4.78

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

The School must properly reconcile its AOI enrollment data with ADE's System

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. 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 AOI SMS data to identify any discrepancies that would affect funding and correct any errors identified. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

The School was overfunded by \$30,167.93

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate AOI student data reported to ADE for the three fiscal years audited. The enrollment data errors reported by the School resulted in its ADM being overstated by 4.78. As shown in Table 5, due to the overstatement of 4.78 ADM for its AOI enrollment data, the School was overfunded by \$30,167.93 which the School must pay ADE pursuant to A.R.S. § 15-915.

Table 5

**North Star Charter School, Inc.
AOI ADM and funding adjustments
Fiscal years 2015, 2016 and 2017**

Fiscal year	2015	2016	2017	Total
ADM	1.52	1.67	1.59	4.78
Total funding adjustments	\$ 10,139.10	\$ 11,169.20	\$ 8,859.63	\$ 30,167.93

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

Recommendations:

1. The School must pay ADE \$30,167.93 in Basic State Aid for the fiscal years audited for incorrect AOI enrollment data.
2. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

FINDING 3: THE SCHOOL DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE

The School did not provide auditors with attendance information for the three fiscal years audited. Additionally, the School did not properly maintain required residency, immunization, and birth certificate documentation in some of its student files. In the future, the School should properly maintain these documents to ensure compliance with statute and ADE guidelines.

The School did not properly maintain student documentation

Auditors determined that the School failed to maintain attendance and student file documentation for some students as required by statute and ADE guidelines. According to A.R.S. § 41-151.14, all original records, whether in paper or electronic format, must be maintained pursuant to a records retention schedule, which is established by the Arizona State Library, Archives and Public Records.

School Finance Manual [D] Compilation & Maintenance of Student Records requires school districts and charter schools “maintain a sufficient audit trail of attendance documentation to be able to validate the accuracy of the attendance information reported to ADE.”

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.

According to A.R.S. § 15-874, each pupil's immunizations must be recorded on the school immunization record and shall be part of the mandatory permanent student record.

According to A.R.S. § 15-828, school districts and charter schools are required to obtain upon enrollment a certified copy of the student’s birth certificate, or an alternative document stated in A.R.S. § 15-828 including “other reliable proof of the pupil's identity and age, including the pupil's baptismal certificate, an application for a social security number or original school registration records and an affidavit explaining the inability to provide a copy of the birth certificate [or] a letter from the authorized representative of an agency having custody of the pupil pursuant to title 8, chapter 2 certifying that the pupil has been placed in the custody of the agency as prescribed by law.”

The School did not maintain the proper documentation required by statute and ADE guidelines. Of the 57 students sampled, 18 students did not have residency documentation, 8 students were missing immunization records and 4 students did not have birth certificate documentation. Table 6 lists the student file documentation maintained by the School for fiscal years 2015, 2016 and 2017.

Table 6

**North Star Charter School, Inc.
Student cumulative file documentation
Fiscal years 2015, 2016 and 2017**

	Total sampled	Missing birth certificate	Missing immunization	Missing residency
2015	20	1	2	7
2016	20	2	1	6
2017	17	1	5	5
Total	57	4	8	18

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

In the future, the School must maintain a sufficient audit trail of attendance documentation. Additionally, the School must ensure that it complies with statute by collecting and maintaining residency, immunization and birth certificate documentation as required by law.

Recommendations:

1. The School must maintain a sufficient audit trail of attendance documentation.
2. The School must comply with statute and collect and maintain residency, birth certificate and immunization documentation as required by law.

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 \$126,241.69 required to be paid to ADE—Auditors identified an overall funding adjustment of \$126,241.69 for the three fiscal years audited due to inaccurate student enrollment.

Table 7 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal year 2015, 2016 and 2017.

Table 7

**North Star Charter School, Inc.
ADM and funding adjustments
Fiscal years 2015, 2016 and 2017**

	2015		2016		2017		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Enrollment data	6.88	\$ 45,801.90	3.64	\$ 24,317.70	4.65	\$ 25,954.16	\$ 96,073.76
AOI data	<u>1.52</u>	<u>\$ 10,139.10</u>	<u>1.67</u>	<u>\$ 11,169.20</u>	<u>1.59</u>	<u>\$ 8,859.63</u>	<u>\$ 30,167.93</u>
Total funding adjustment	8.40	\$ 55,941.00	5.31	\$ 35,486.90	6.23	\$ 34,813.79	\$ 126,241.69

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