



Arizona Department of Education

The Audit Unit

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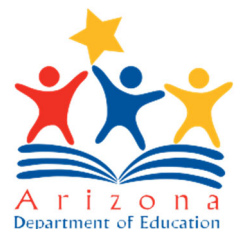
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602-364-4061

Average Daily Membership Audit Report Naco Elementary School District Fiscal Years 2016, 2017 and 2018

Report Number—19-17

November 29, 2018



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State of Arizona
Department of Education



November 29, 2018

Dr. Abel Morado, Superintendent
Naco Elementary School District
1911 W. Valenzuela Street – PO Box 397
Naco, AZ 85620

Dear Superintendent,

The Arizona Department of Education Audit Unit has conducted an audit of the Naco Elementary School District (District) Average Daily Membership (ADM) for Fiscal Years 2016, 2017 and 2018. 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 did not maintain documentation to prove Arizona residency for 1 student, which resulted in its ADM being overstated by 0.240. As a result, the District was overfunded by \$9,125.34 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

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Naco Elementary 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) 2016 through 2018.

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 Naco, Arizona, offered instruction in grades kindergarten through 8th grade during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2016, FY2017 and FY2018.

Table 1

**Naco Elementary School District
Total Students, Revenues and Expenditures
FY2016, FY2017 and FY2018
(Unaudited)**

	FY2016	FY2017	FY2018
Students Enrolled	298	302	277
Number of Teachers	15	14	17
Revenue			
Local	\$326,508	\$272,831	\$208,123
Intermediate	\$199,087	\$184,627	172,460
State	\$2,768,767	\$2,510,497	\$\$2,383,633
Federal	\$380,373	\$293,359	\$-
Total Revenues	<u>\$3,674,735</u>	<u>\$3,261,314</u>	<u>\$2,764,216</u>
Total Expenditures	<u>\$3,218,038</u>	<u>\$3,350,999</u>	<u>\$3,913,346</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2016 and FY2017; and Naco Elementary School District Annual Expenditure Budget for FY2018.

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 FY2016, FY2017 and FY2018.

To conduct this audit, auditors used a variety of methods, including examining District and ADE records to review 150 of 925 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 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. No findings were identified for this area.
- **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.
- **Instructional hours** – Auditors reviewed the bell schedules and calendars for the District for FY2016, FY2017 and FY2018. 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 PROPERLY MAINTAIN SOME STUDENT RECORDS, RESULTING IN AN OVERPAYMENT OF \$9,125.34

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 addition, auditors determined that the District was unable to provide proof of Arizona residency for 1 student, which resulted in its ADM being overstated by 0.240. Additionally, this student was also reported and funded for a special education category. As a result, the District's weighted special education ADM was over reported by 1.061. In total, the District's ADM was over reported by 1.301. As result, the District was overfunded by \$9,125.34 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the District. In addition, In the future, the District should properly collect and maintain these documents to ensure compliance with statute and ADE guidelines.

The District did not properly maintain student file documentation

The District did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 150 students sampled, 30 of the student files did not have the proper residency documentation obtained at the time of enrollment as the ADE Arizona Residency Guideline requires. Furthermore, 1 of the 30 students did not have any residency documentation on file to prove Arizona residency. In addition, three students did not have a birth certificate in their file and 28 students did not have immunization record documentation in their file.

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 150 students sampled, 30 of the student files did not have the proper residency documentation. While the District did obtain verifiable documentation of residency for 29 of these students in later years, it was not obtained at the time of enrollment as the ADE Arizona Residency Guideline requires. For one of the students, the District was unable to obtain verifiable documentation of residency, resulting in the ADM being overstated by 0.24. However, because this student was also reported and funded for a special education category, they were also overfunded for an additional 1.061 ADM. In total, this student's ADM was overstated by 1.031.

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.”

Table 2 lists the student file documentation maintained by the District for FY2016, FY2017 and FY2018.

Table 2

**Naco Elementary School District
Student Cumulative File Documentation
FY2016, FY2017 and FY2018**

	Total Sampled	Missing Residency Documentation	Missing Birth Certificate	Missing Immunization
FY2016	50	18	1	9
FY2017	50	9	1	11
FY2018	50	3	1	8
Total	<u>150</u>	<u>30</u>	<u>3</u>	<u>28</u>

Source: Auditor analysis of District records for FY2016, FY2017 and FY2018.

The District failed to comply with statute and ADE guidelines

The District did not follow statute and ADE guidelines when collecting and maintaining in each student’s cumulative file copies of verifiable residency, birth certificate and immunization documentation as required by law. The District must ensure it complies with statute and ADE guidelines when collecting and maintaining required student cumulative file documentation. 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.

The District was overfunded by \$9,125.34

Auditors determined that the District did not receive the correct amount of Basic State Aid due to failing to maintain residency documentation to prove Arizona residency for a student in FY2016. The District's failure to collect proper residency documentation for 1 student, resulted in the District's ADM being overstated by 1.301. As a result, the District was overfunded by \$5,249.88. In addition, FY2016 received growth, resulting in an additional adjustment of \$3,875.46. As a result, the total overfunding adjustment for FY2016 was \$9,125.34.

Table 3 shows the ADM and Funding adjustments required for the District for FY2016, FY2017 and FY2018.

Table 3

**Naco Elementary School District
ADM and Funding Adjustments
FY2016, FY2017 and FY2018**

Fiscal Year	ADM	Basic State Aid	Growth	Total Funding Adjustment
FY2016	1.301	\$5,249.88	\$3,875.46	\$9,125.34
FY2017	-	-	-	-
FY2018	-	-	-	-
Total	<u>1.301</u>	<u>\$5,249.88</u>	<u>\$3,875.46</u>	<u>\$9,125.34</u>

Source: Auditor analysis of District and ADE records for FY2016, FY2017 and FY2018.

Recommendations:

1. ADE must recoup from the District \$9,125.34 in Basic State Aid due to improperly maintained residency documentation.
2. 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.
3. The District needs to ensure it properly maintains all required documentation for students that attend the District.

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 \$9,125.34 required to be repaid by the District—Auditors identified an overall funding adjustment of \$9,125.34 for the three fiscal years audited due to improperly maintained residency documentation.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2016, FY2017 and FY2018.

Table 4

**Naco Elementary School District
ADM and Funding Adjustments
FY2016, FY2017 and FY2018**

	FY2016	FY2017	FY2018	Total
ADM Adjustments	1.301	-	-	1.301
Funding Adjustments	<u>\$9,125.34</u>	<u>\$-</u>	<u>\$-</u>	<u>\$9,125.34</u>

Source: Auditor analysis of ADE and District student and financial data for FY2016, FY2017 and FY2018.