



Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-4036

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

**Report Number—19-21
December 20, 2018**



**CONTACTING
THE AUDIT UNIT**

Melissa Moreno, Chief Auditor

Phone: (602) 364-4036

Email: Melissa.Moreno@azed.gov

Fax: (602) 364-2334

Mail: 1535 W. Jefferson St., Bin 19
Phoenix, AZ 85007-3209

OBTAINING ADDITIONAL COPIES

To obtain additional copies of this report, please submit a formal request to the address below:

Arizona Department of Education—The Audit Unit
1535 W. Jefferson Street, Bin 19
Phoenix, AZ 85007-3209



State of Arizona
Department of Education



Diane Douglas
Superintendent of
Public Instruction

December 20, 2018

Gregory Sackos, Superintendent
Morristown Elementary School District
PO Box 98
Morristown, AZ 85342

Dear Superintendent Sackos:

The Arizona Department of Education Audit Unit has conducted an audit of Morristown 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 found that some data was incorrect, which resulted in a net overstatement of 0.04 ADM with a net underfunding of \$1,897.65 in Basic State Aid, which ADE must pay to the District as required by statute. Additionally, auditors determined that the District failed to properly maintain some required documentation in student cumulative files.

We appreciate the cooperation and help provided by the District's administration during 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

1535 West Jefferson Street, Phoenix, Arizona 85007 • (602) 542-5460 • www.azed.gov

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 \$1,897.65	4
Some student data was inaccurate	4
The District must properly reconcile its enrollment data with ADE.....	5
The District was underfunded by \$1,897.65.....	5
Recommendations	6
Finding 2: The District did not properly maintain some student records as required by statute and guideline	7
The District did not properly maintain student file documentation	7
Recommendation.....	8
ADM and funding adjustments	9

TABLE OF CONTENTS (CONT'D)

	<u>Page</u>
Tables:	
1 Morristown Elementary School District Total students, revenues and expenditures FY2016, FY2017 and FY2018 (Unaudited)	2
2 Morristown Elementary School District ADM adjustments FY2016, FY2017 and FY2018.....	5
3 Morristown Elementary School District ADM and funding adjustments FY2016, FY2017 and FY2018.....	5
4 Morristown Elementary School District Student cumulative file documentation FY2016, FY2017 and FY2018.....	8
5 Morristown Elementary School District ADM and funding adjustments FY2016, FY2017 and FY2018.....	9

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Morristown 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 and budget capacity 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 that budget capacity was calculated correctly. School districts calculate budget capacity and receive Basic State Aid based on several factors related to student enrollment and attendance. School districts report enrollment and attendance data to ADE. ADE processes that data, determines budget capacity and 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 ADM was reported correctly for budget capacity and funding, and if payments were correct or if an adjustment is needed. The audit process compares the school district'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 reported information does not match the original documentation, the audit will calculate and report the ADM and funding adjustment needed to the school district. 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 Morrystown, Arizona, had one elementary school during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2016, FY2017 and FY2018.

Table 1

**Morrystown Elementary School District
Total students, revenues, and expenditures
FY2016, FY2017 and FY2018
(Unaudited)**

	FY2016	FY2017	FY2018
Students enrolled	119	116	114
Number of teachers	10	10	9
Revenue			
Local	\$ 1,102,142	\$ 802,139	\$ 898,300
County	\$ 81,391	\$ 105,492	\$ 100,000
State	\$ 1,135,334	\$ 625,300	\$500,000
Federal	\$ 298,851	\$ 317,889	\$ 241,000
Total revenues	<u>\$ 2,617,718</u>	<u>\$ 1,850,820</u>	<u>\$1,739,300</u>
Total expenditures	<u>\$ 1,823,232</u>	<u>\$ 1,890,999</u>	<u>\$1,642,046</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2016 and FY2017; and Morrystown Elementary School District Annual Expenditure Budget and APOR 55-1 reports 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 410 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:

- **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.
- **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 and checked to see if students attended the District and to determine if the entry and exit dates were reported correctly. Auditors made an adjustment if one was necessary.
- **Student files**—Auditors reviewed student files to ensure that they maintained required documentation, including birth certificates, immunization, and residency documentation. Auditors noted if files 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.
- **Special education (SPED) data** —Auditors determined whether an adjusted student had also been funded for a special education category. No material 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 help during the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN UNDERPAYMENT OF \$1,897.65

Auditors found that the District was inaccurately funded for 26 students in the three fiscal years audited. 11 students were not funded even though they attended the District, nine students had incorrect enrollment dates, five students were funded but did not attend the District, and one student had an incorrect FTE reported. In total, although the District's ADM was overreported by 0.04, the financial effect resulted in an underfunding of \$1,897.65 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to repay these monies to the District.

Some student data was inaccurate

Auditors found that ADE did not fund the District accurately for 26 students. According to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance or excused absence. ADE External Guideline and Procedures GE-17 states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. However, during the audit, auditors found that the District did not report accurate data. Specifically:

- 11 students that attended school in the District during the three fiscal years audited were not reported to ADE, resulting in the District's ADM being understated by 6.82.
- 9 students had incorrect enrollment dates, which resulted in the District's ADM being overstated by 3.86.
- 5 students that were funded by ADE, actually did not attend, which resulted in the District's ADM being overstated by 4.00.
- 1 student had an incorrect FTE reported, which resulted in the District's ADM being understated by 1.00.

As shown in Table 2, student data errors resulted in a net ADM overstatement of 0.04 for the three fiscal years audited.

Table 2

**Morristown Elementary School District
ADM adjustments
FY2016, FY2017 and FY2018**

	Attended but were not funded	Incorrect enrollment dates	Did not attend	Incorrect FTE	Total
FY2016	(1.66)	3.44	2.00	(1.00)	2.78
FY2017	(4.50)	0.42	0.50	-	(3.58)
FY2018	(0.66)	-	1.50	-	0.84
Total	<u>(6.82)</u>	<u>3.86</u>	<u>4.00</u>	<u>(1.00)</u>	<u>0.04</u>

Source: Auditor analysis of District records, ADE data for FY2016, FY2017 and FY2018, A.R.S. §15-901.

The District must properly reconcile its enrollment data with ADE

The District can avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained within ADE’s system. The District must ensure that a process is in place that captures the proper FTE and 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 was underfunded by \$1,897.65

Auditors found that the District did not receive the correct amount of Basic State Aid due to the inaccurate data in ADE’s system for two of the fiscal years audited. These data errors resulted in the District’s ADM being overstated by 0.04. However, the ADM for FY2016 was not used to determine Basic State Aid because the funding formula transitioned from using prior year data to current year data. As a result, the District was underfunded by \$1,897.65 in Basic State Aid, which ADE must repay the District as required by A.R.S. §15-915.

Table 3

**Morristown Elementary School District
ADM and funding adjustments
FY2016, FY2017 and FY2018**

	FY2016	FY2017	FY2018	Total
ADM adjustments	2.78	(3.58)	0.84	0.04
Funding adjustments	\$ -	\$(5,156.09)	\$3,258.44	\$(1,897.65)

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

Recommendations:

1. ADE must pay the District \$1,897.65 in Basic State Aid due to incorrectly reported enrollment data.
2. The District needs to ensure that it properly calculates and reports students' enrollment dates and FTE pursuant to statute and ADE guidelines.
3. The District should reconcile data regularly and follow-up with ADE to confirm data is correct in ADE's system to ensure it complies with A.R.S. § 15-901.

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 collect and maintain student documentation as required by statute and ADE guidelines. The District failed to properly maintain a birth certificate for 10 students and residency documentation for 94 students. 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 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 residency documentation required by statute and ADE's residency guideline. Of the 149 student files sampled, 94 student files did not have proper residency documentation. The District needs to ensure that it collects proof of residency for each student as required by ADE's residency guideline.

Auditors also determined that the District failed to maintain birth certificate documentation for ten students. 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. The District should ensure that it collects and maintains birth certificates for each student.

Table 4 lists the student file documentation that was not collected or maintained by the District for FY2016, FY2017 and FY2018.

Table 4

**Morristown Elementary School District
Student cumulative file documentation
FY2016, FY2017 and FY2018**

	Total sampled	Missing or unapproved residency documentation	Missing birth certificate
FY2016	50	33	5
FY2017	49	25	3
FY2018	50	36	2
Total	149	94	10

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

Recommendation:

1. The District must comply with statute and collect and maintain in each students' cumulative file appropriate copies of verifiable residency and birth certificate documentation 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 Districts 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 \$1,897.65—Auditors identified an overall funding adjustment of \$1,897.65 due back to the District for the three fiscal years audited due to data enrollment errors.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2016, FY2017 and FY2018.

Table 5

**Morristown Elementary School District
ADM and funding adjustments
FY2016, FY2017 and FY2018**

	FY2016	FY2017	FY2018	Total
ADM adjustments	2.78	(3.58)	0.84	0.04
Funding adjustments	\$0.00	\$(5,156.09)	\$3,258.44	\$(1,897.65)

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