



Arizona Department of Education

The Audit Unit
1535W. Jefferson St., Bin 19
Phoenix, Arizona 85007
602-364-4061

Average Daily Membership Audit Report Lake Havasu Unified District Fiscal Years 2015, 2016 and 2017

Report Number—19-16
November 30, 2018



**CONTACTING
THE AUDIT UNIT**

Taylor MacNamara, Audit Manager

Phone: (602) 364-4063

Email: Taylor.Macnamara@azed.gov

Fax: (602) 364-2334

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

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1535 W. Jefferson Street, Bin 19
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State of Arizona
Department of Education



Diane Douglas
Superintendent of
Public Instruction

November 30, 2018

Diana Asseier, Superintendent
Lake Havasu Unified District
2200 Havasupai Blvd,
Lake Havasu City, AZ 86403 -312

Dear Superintendent Asseier,

The Arizona Department of Education Audit Unit has conducted an audit of the Lake Havasu Unified 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 to determine if it received the correct amount of Basic State Aid.

Auditors determined that the District incorrectly reported some enrollment data, which resulted in its ADM being overstated by 22.99. As a result, the District was overfunded by \$16,077.21 in Basic State Aid, which must be repaid to ADE by the District pursuant to state law.

We appreciate the cooperation and assistance 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

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of Lake Havasu Unified District (District) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for fiscal years (FY) 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.

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 Lake Havasu City, Arizona, operated six elementary schools, a middle school, a high school, and an AOI program in the fiscal years audited. Table 1 presents the District’s unaudited financial information for fiscal years 2015, 2016 and 2017.

Table 1

**Lake Havasu Unified District
Total students, revenues and expenditures
Fiscal years 2015, 2016 and 2017
(Unaudited)**

	2015	2016	2017
Students enrolled	5,727	5,613	5,530
Number of teachers	263	254	234
Revenue			
Local	\$ 29,148,633	\$ 24,519,236	\$ 25,224,326
County	714,643	684,413	617,699
State	9,249,467	10,824,449	10,988,780
Federal	<u>3,964,524</u>	<u>5,022,173</u>	<u>4,610,983</u>
Total revenues	<u>43,077,266</u>	<u>41,050,271</u>	<u>41,441,788</u>
Total expenditures	<u>\$ 43,197,145</u>	<u>\$ 37,601,136</u>	<u>\$ 39,528,976</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 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 fiscal years 2015, 2016 and 2017.

To conduct this audit, auditors used a variety of methods, including examining District and ADE records for enrollment. 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:

- ***Instructional hours***—Auditors reviewed the District’s bell schedules and calendars for the fiscal years audited. 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.
- ***Enrollment data***—Auditors compared the District’s student management system to ADE’s system and identified 1,759 of the 17,586 students for further evaluation. Auditors reviewed these 1,759 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.
- ***Student files***—Auditors reviewed student files to ensure that they maintained required residency documentation. No findings were identified.
- ***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 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. No findings were identified.

The Audit Unit expresses its appreciation to the Lake Havasu Unified District’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$16,077.21

The District inaccurately reported the student enrollment data for 138 of its students for fiscal years 2015, 2016 and 2017. Specifically, auditors determined that 66 students had FTE reported incorrectly, 25 students had incorrect enrollment dates, 18 students attended but were not reported to ADE's System for funding, 14 students were incorrectly reported as homebound, 12 students had duplicate enrollments reported for funding, two students were reported for funding but did not attend, and one student was funded but was not an Arizona resident. Furthermore, 23 of these students had additional SPED adjustments. In total, the District's ADM was overstated by 22.99 for its students for the three fiscal years audited. Due to the inaccurate enrollment data, the District received a net overpayment of \$16,077.21 in Basic State Aid for the three fiscal years audited which the District must repay to ADE pursuant to A.R.S. § 15-915.

The District inaccurately reported some student enrollment data

The District inaccurately reported the enrollment data for 138 students to ADE due to various errors, which resulted in the District's ADM being overreported by 22.99.

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. 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. A.R.S. § 15-901 states the withdrawal date for students is the last day of actual attendance or excused absence. A.R.S. § 15-901 states homebound students must have medical certification and must receive at least 4 hours of instruction per week to be considered full-time. Finally, A.R.S. § 15-823 states a school district shall not include pupils who are not residents of this state in their student count and shall not obtain state funding for those pupils.

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

- 66 students were reported with incorrect FTE, which resulted in the District's ADM being overreported by 7.35.
- 25 student had incorrect enrollment dates reported, which resulted in the District's ADM being underreported by 1.30.
- 18 students were not reported to ADE's System; however, District attendance documentation showed the students as being enrolled and attending, which resulted in the District's ADM being underreported by 11.53.

- 14 students did not meet the requirements for homebound, which resulted in the District's ADM being overreported by 8.01.
- 12 students had duplicate enrollments that were funded, which resulted in the District's ADM being overreported by 10.21.
- 2 students were reported to ADE's System; however, no documentation showed the students as enrolled and attending, which resulted in the District's ADM being overreported by 1.01.
- 1 student was reported to ADE's System as an Arizona resident; however, the student did not reside in Arizona, which resulted in the District's ADM being overreported by 0.80.
- 23 students that were identified with an adjustment also had a SPED weight, which resulted in the District's weighted SPED ADM being overreported by 8.44.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 22.99 for fiscal years 2015, 2016 and 2017.

Table 2

**Lake Havasu Unified District
ADM adjustments due to enrollment data errors
Fiscal years 2015, 2016 and 2017**

	2015	2016	2017	Total
Incorrect FTE	4.43	3.05	(0.13)	7.35
Incorrect enrollment dates	0.82	(2.32)	0.20	(1.30)
Attended	-	(11.53)	-	(11.53)
Homebound	0.15	-	7.86	8.01
Duplicate	-	9.83	0.38	10.21
Did not attend	-	1.00	0.01	1.01
Out of state	0.80	-	-	0.80
SPED	0.48	-	7.96	8.44
Total	6.68	0.03	16.28	22.99

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

The District must properly reconcile its enrollment data with ADE

The District 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 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 should review its internal reporting practices and ensure that it appropriately reports students as homebound and collects and maintains documents for homebound students pursuant to statute. Finally, the District should ensure out of state students are reported with the appropriate tuition payer code.

The District was overfunded by \$16,077.21

Auditors determined that the District 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 District resulted in its ADM being overstated by 22.99 for the three fiscal years audited. Due to the change in funding from prior year to current year, the only adjustment to Basic State Aid paid for the students in fiscal year 2017 was for District Additional Assistance. Furthermore, the District was not funded Basic State Aid for high school in the audited fiscal years. As shown in Table 3, due to the overstatement of 22.99 ADM for its enrollment data, the District received an underpayment to Basic State Aid of \$12,012.46 for the three fiscal years audited. However, statutory growth formulas applied to the District require that this amount be increased by \$28,089.67. As a net result, the District was overfunded by \$16,077.21 which ADE must recoup from the District pursuant to A.R.S. § 15-915.

Table 3

**Lake Havasu Unified District
ADM and funding adjustments due to enrollment data errors
Fiscal years 2015, 2016 and 2017**

	2015	2016	2017	Total
ADM	6.68	0.03	16.28	22.99
Basic State Aid	\$ 6,195.95	\$ (18,403.01)	\$ 194.60	\$ (12,012.46)
Growth	\$ 28,089.67	\$ -	\$ -	\$ 28,089.67
Total funding adjustments	\$ 34,285.62	\$ (18,403.01)	\$ 194.60	\$ 16,077.21

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

Recommendations:

1. The District must repay ADE \$16,077.21 in Basic State Aid due to incorrectly reported enrollment data.
2. The District must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901.
3. The District needs to ensure that it properly calculates and reports students' FTE, homebound, residency and enrollments pursuant to statute and ADE guidelines.

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 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 2015 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 once the audit is finalized.

Basic State Aid adjustment of \$16,077.21 required to be paid by the District—Auditors identified an overall funding adjustment of \$16,077.21 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 District for fiscal years 2015, 2016 and 2017.

Table 4

**Lake Havasu Unified District
ADM and funding adjustments
Fiscal years 2015, 2016 and 2017**

	2015	2016	2017	Total
Total ADM adjustment	6.68	0.03	16.28	22.99
Total funding adjustment	\$ 34,285.62	\$ (18,403.01)	\$ 194.60	\$ 16,077.21

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