



Arizona Department of Education

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Average Daily Membership Audit Report Florence Unified District Fiscal Years 2016, 2017 and 2018

Report Number—19-28
March 22, 2019



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State of Arizona
Department of Education



Kathy Hoffman
Superintendent of
Public Instruction

March 22, 2019

Chris Knutsen, Superintendent
Florence Unified School District
PO Box 2850
Florence, AZ 85132

Dear Superintendent Knutsen:

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

Auditors determined that the District incorrectly reported some enrollment and full-time enrollment (FTE) data. Additionally, auditors determined that the District incorrectly reported some AOI enrollment data. Finally, auditors determined that the District did not provide sufficient instructional hours. These errors resulted in an overstatement of 47.35 ADM and a net overpayment of \$200,707.59 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

Kathy Hoffman, 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 Florence Unified School 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 2016, 2017 and 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 Florence, Arizona, operated seven elementary schools, two high schools, and two alternative schools in fiscal year 2016. The District operated an additional elementary and high school in fiscal year 2017 and 2018 and operated an AOI in fiscal year 2018. Table 1 presents the District’s unaudited financial information for fiscal years 2016, 2017 and 2018.

Table 1

**Florence Unified School District
Total students, revenues and expenditures
Fiscal years 2016, 2017 and 2018
(Unaudited)**

	2016	2017	2018
Students enrolled	8,340	9,338	8,582
Number of teachers	468	474	489
Revenue			
Local	\$ 19,864,256	\$ 21,497,399	\$ 23,352,177
County	2,267,378	2,460,542	2,716,967
State	37,507,219	38,486,429	42,372,981
Federal	<u>7,199,315</u>	<u>4,513,368</u>	<u>11,318,613</u>
Total revenues	<u>66,838,168</u>	<u>66,957,738</u>	<u>79,760,737</u>
Total expenditures	<u>\$ 61,940,072</u>	<u>\$ 71,836,224</u>	<u>\$ 76,747,196</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2016, 2017 and 2018.

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 2016, 2017 and 2018.

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 and determined that the District provided at least the minimum number of instructional hours as required by statute for each grade level with the exception of 7th and 8th grade at Mountain Vista Academy in fiscal year 2018.
- ***Enrollment data***—Auditors compared the District’s student management system to ADE’s system and identified 2,842 of the 29,917 students for further evaluation. Auditors reviewed these 2,842 student profiles and schedules 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 and FTE 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 District 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 150 student files to ensure that they maintained required residency documentation. No material findings were identified.
- ***Special education (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 Florence Unified School 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 \$203,327.29

The District inaccurately reported the student enrollment data for 120 of its students for fiscal years 2016, 2017 and 2018. Specifically, auditors determined that 93 students had FTE reported incorrectly, 15 students had incorrect enrollment dates, seven students had homebound reported incorrectly, four students attended but were not reported to ADE's System for funding and one student was reported for funding but did not attend. Furthermore, 19 of these students had additional SPED adjustments. In total, the District's ADM was overstated by 47.96 for its students for the three fiscal years audited. Due to the inaccurate enrollment data, the District received a net overpayment of \$203,327.29 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 120 students to ADE due to various errors, which resulted in the District's ADM being overreported by 47.96.

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.

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

- 93 students were reported with incorrect FTE, which resulted in the District's ADM being overreported by 21.96.
- 15 student had incorrect enrollment dates reported, which resulted in the District's ADM being overreported by 0.65.
- 7 students did not meet the requirements for homebound, which resulted in the District's ADM being overreported by 4.99.
- 4 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 2.76.

- 1 student was reported to ADE’s System; however, no documentation showed the student as enrolled and attending, which resulted in the District’s ADM being overreported by 0.01.
- 19 students that were identified with an adjustment also had a SPED weight, which resulted in the District’s weighted SPED ADM being overreported by 23.11.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 47.96 for fiscal years 2016, 2017 and 2018.

Table 2

**Florence Unified School District
ADM adjustments due to enrollment data errors
Fiscal years 2016, 2017 and 2018**

	2016	2017	2018	Total
Incorrect FTE	0.96	20.38	0.62	21.96
Incorrect enrollment dates	(0.02)	0.26	0.41	0.65
Homebound	2.01	1.14	1.84	4.99
Attended	(0.89)	(1.87)	-	(2.76)
Did not attend	-	0.01	-	0.01
SPED	4.64	12.44	6.03	23.11
Total	6.70	32.36	8.90	47.96

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

The District must properly reconcile its enrollment data with ADE data

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.

The District was overfunded by \$203,327.29

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 2016, 2017 and 2018. The enrollment data errors reported by the District resulted in its ADM being overstated by 47.96 for the three fiscal years audited. Due to the change in funding from prior year to current year, fiscal year 2016 ADM was only funded for Growth. As shown in Table 3, due to the overstatement of 47.96 ADM for its enrollment data, the District received an overpayment to Basic State Aid of \$176,979.42 for the three fiscal years audited. However, statutory growth formulas applied to the District require that this amount be increased by \$26,347.87. As a net result, the District was overfunded by \$203,327.29 which ADE must recoup from the District pursuant to A.R.S. § 15-915.

Table 3

**Florence Unified School District
ADM and funding adjustments due to enrollment data errors
Fiscal years 2016, 2017 and 2018**

	2016	2017	2018	Total
ADM	6.70	32.36	8.90	47.96
Basic State Aid	\$ -	\$ 138,877.59	\$ 38,101.83	\$ 176,979.42
Growth	\$ 26,347.87	\$ -	\$ -	\$ 26,347.87
Total funding adjustments	\$ 26,347.87	\$ 138,877.59	\$ 38,101.83	\$ 203,327.29

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

Recommendations:

1. The District must repay ADE \$203,327.29 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 and enrollments pursuant to statute and ADE guidelines.

FINDING 2: THE DISTRICT DID NOT ACCURATELY REPORT AOI DATA RESULTING IN AN UNDERPAYMENT OF \$3,121.50

The District did not accurately report enrollment data for 58 of its AOI students to ADE for fiscal year 2018. Specifically, auditors found that 32 students were reported to ADE’s System with incorrect minutes and 26 students had been reported as full time but were part time. As a result, the District’s weighted AOI ADM was understated by 0.73. This led to the District being underfunded by \$3,121.50 which ADE must pay to the District according to A.R.S. § 15-915.

The District inaccurately reported some AOI enrollment data

Auditors determined that student data for 58 of its AOI students was inaccurate, which resulted in the District’s weighted AOI ADM being understated by 0.73 for fiscal year 2018. According to A.R.S. § 15-808, AOI ADM is based on the number of minutes a student participates in the AOI during the year. In addition, SF-0003 states that full time AOI students must enroll in and participate in four or more classes during the year. If a student is enrolled in fewer than four classes, they should be reported as part time. However, the District did not always meet these requirements as follows:

- 32 students were reported to ADE’S System with incorrect AOI minutes.
- 26 students were incorrectly reported as full time and should have been reported as part time.

As shown in Table 4, AOI data reporting errors resulted in a net weighted ADM understatement of 0.73 for fiscal year 2018.

Table 4

**Florence Unified School District
AOI ADM Adjustments
Fiscal year 2018**

Adjustments	Total
Full time	3.65
Part time	(4.38)
Total	(0.73)

Source: Auditor analysis of District records and ADE data for fiscal year 2018.

The District must properly reconcile its enrollment data with ADE data

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 should review its reconciliation practices to ensure that its staff properly review the reports produced by and reconcile them to the District's AOI SMS data to identify any discrepancies that would affect funding and correct any errors identified. The District must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

The District was underfunded by \$3,121.50

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate AOI student data reported to ADE for the fiscal year 2018. The enrollment data errors reported by the District resulted in its ADM being understated by 0.73. As shown in Table 5, due to the understatement of 0.73 ADM for its AOI enrollment data, the District received an underpayment of \$3,121.50 in Basic State Aid for fiscal year 2018, which ADE must repay to the District pursuant to A.R.S. § 15-915.

Table 5

**Florence Unified School District
AOI ADM and funding adjustments
Fiscal year 2018**

Fiscal year	Total
ADM	(0.73)
Basic State Aid	\$(3,121.50)

Source: Auditor analysis of District records and ADE data for fiscal year 2018.

Recommendations:

1. ADE must pay the District \$3,121.50 in Basic State Aid for the fiscal year audited for incorrect AOI enrollment data.
2. The District must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

FINDING 3: SOME STUDENTS WERE NOT PROVIDED SUFFICIENT INSTRUCTIONAL HOURS RESULTING IN AN OVERPAYMENT OF \$501.80

The District did not provide the statutorily-required number of instructional hours to its Mountain Vista Academy 7th and 8th grade students for fiscal year 2018. As a result, the District was overpaid \$501.80 in Basic State Aid. Pursuant to A.R.S. § 15-915, ADE should recover these monies from the District, and the District should ensure that it provides all students with sufficient instructional hours.

The District failed to provide some students with sufficient instructional hours

Although all school districts are required by statute to provide a minimum number of instructional hours to students, the District did not meet this requirement for its 7th and 8th grade students for fiscal year 2018. Specifically, A.R.S. § 15-901 requires that public schools provide at least 1000 instructional hours for 7th and 8th grade students in fiscal year 2018.

In 2018, the District provided 7th and 8th grade students at Mountain Vista Academy 992 hours out of the 1000 required hours. As a result, it only provided 99.2% of the required hours for fiscal year 2018.

Table 6

**Florence Unified School District
ADM overstatement due to insufficient
instructional hours
Fiscal year 2018**

Grade	2018	
	7 th	8 th
Reported ADM	4.74	9.90
Instructional hours required	1000	1000
Instructional hours provided	992	992
Percentage met	99.2%	99.2%
Audited ADM	4.70	9.82
ADM overstated	0.04	0.08

Source: Auditor analysis of ADE and District student data for fiscal year 2018.

The District was overfunded \$501.80

As a result of providing insufficient instructional hours for these students during the fiscal year audited, the District's ADM was overstated and the District was overpaid Basic State Aid¹. In total, the District was overfunded by \$501.80 in Basic State Aid due to an ADM overstatement of 0.12 as shown in Table 7.

Table 7

**Florence Unified School District
ADM overstatement and funding adjustments due to
insufficient instructional hours
Fiscal year 2018**

	2018
ADM overstated	0.12
Total overpayment	\$501.80

Source: Auditor analysis of ADE and District student data for fiscal year 2018.

Recommendations:

1. The District must repay ADE \$501.80 in Basic State Aid due to incorrectly reported enrollment data.
2. The District should review its schedules yearly to verify that they meet the statutory minimum requirements for instructional hours per grade.
3. The District should ensure that it provides all students with at least the statutorily-required minimum number of instructional hours

¹ ADE Guideline GE-18 provides directions for determining the ADM adjustment based on insufficient instructional hours. According to the Guideline, "If school districts or charter holders are not in compliance with the requirements for annual classroom instruction hours pursuant to A.R.S. §15-901, then annual equalization funding shall be prorated accordingly. Example: A school with deficient annual hours will have their reported membership decreased based on the actual amount of instruction hours provided compared to the required annual hours. For instance, a school that provides 90 percent of the required hours will have the reported membership days reduced by 10 percent, thus ADM will be reduced by 10 percent. Annual equalization will be based on this revised ADM."

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 \$200,707.59 required to be paid by the District—Auditors identified an overall funding adjustment of \$200,707.59 for the three fiscal years audited due to inaccurate student enrollment.

Table 8 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for fiscal years 2016, 2017 and 2018.

Table 8

**Florence Unified School District
ADM and funding adjustments
Fiscal years 2016, 2017 and 2018**

	2016		2017		2018		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Inaccurate enrollment data	6.70	\$26,347.87	32.36	\$138,877.59	8.90	\$38,101.83	\$203,327.29
AOI	-	-	-	-	(0.73)	(3,121.50)	(3,121.50)
Insufficient instructional hours	-	-	-	-	0.12	501.80	501.80
Total funding adjustment	6.70	\$26,347.87	32.36	\$138,877.59	8.28	\$35,482.13	\$200,707.59

Source: Auditor analysis of ADE and District student and financial data for fiscal years 2016, 2017 and 2018.