



Arizona Department of Education

The Audit Unit

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

Report Number—19-38

June 28, 2019



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Arizona Department of Education

Audit Unit

June 28, 2019

Darlene McCauley, Superintendent
Littlefield Unified District
PO Box 730
Beaver Dam, AZ 86432

Superintendent McCauley:

The Arizona Department of Education Audit Unit has conducted an audit of the Littlefield Unified 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 incorrectly reported the enrollment data of 15 students, which resulted in its ADM being understated by 4.02. As a result, the District was underfunded by \$24,216.88 which ADE must pay to the District.

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

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 the Littlefield Unified 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 FY2016 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 Beaver Dam, Arizona, offers instruction in grades K through 12. The District operates one high school and one elementary school. Table 1 presents the District’s unaudited student, staffing and financial information for fiscal years 2016, 2017 and 2018.

Table 1
Littlefield Unified District
Total students, revenues and expenditures
Fiscal years 2016, 2017 and 2018
(Unaudited)

	2016	2017	2018
Students enrolled	433	389	383
Number of teachers	31	30	26
Revenue			
Local	\$ 926,630	\$ 994,368	\$ 1,303,758
County	404,463	400,104	375,886
State	2,032,337	2,017,356	2,046,182
Federal	645,516	574,700	516,375
Total revenues	<u>4,008,946</u>	<u>3,986,528</u>	<u>4,242,201</u>
Total expenditures	<u>\$ 4,164,419</u>	<u>\$ 3,890,668</u>	<u>\$ 3,939,596</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 to review 165 of 1,235 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 student schedules, enrollment histories 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.
- **FTE**– 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.
- **Student files** – Auditors reviewed student files to ensure that they maintained required documentation such as birth certificates, immunization records, and supporting residency documentation. No findings were identified.
- **Instructional hours** – Auditors reviewed the bell schedules and calendars for the District for fiscal years 2016, 2017 and 2018. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited.
- **SPED data** – Auditors determined whether an adjusted student had also been funded for a special education (SPED) category. No SPED adjustments were identified.
- **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.

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 ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN UNDERPAYMENT OF \$24,216.88

Auditors determined that the District inaccurately reported the student data for 15 students for fiscal years 2016, 2017 and 2018. Specifically, auditors found that six students had an incorrectly reported FTE, six students were not reported but attended the District and three students had incorrect enrollment dates. In total, the District's ADM was underreported by 4.02. As a result, the District was underfunded by \$24,216.88 in Basic State Aid for the three fiscal years audited which ADE must pay to the District pursuant to A.R.S. § 15-915.

The District inaccurately reported some student data

The District inaccurately reported 15 student's enrollment data to ADE, which resulted in the District's ADM being understated by 4.02.

According to A.R.S. § 15-901, 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. A student who does not meet these requirements is considered a part-time student and their FTE status must be reduced based on the number of actual instructional hours provided and courses enrolled¹. In addition, according to ADE External Guideline and Procedures GE-17 and A.R.S. § 15-901, with the exception of pre-enrolled students, the enrollment dates for a student are the first day of actual attendance and the last day of actual attendance or excused absence. However, the District did not always adhere to these requirements. Specifically, for the students that were sampled:

- 6 students had an incorrect FTE reported. As a result, the ADM for the District was overreported by 1.06.
- 6 students were not reported but did attend the District. As a result, the ADM for the District was underreported by 3.86.
- 3 students were reported with incorrect enrollment dates. As a result, the ADM for the District was underreported by 1.22.

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.

As shown in Table 2, data reporting errors resulted in an ADM understatement of 4.02 for the three fiscal years audited.

Table 2
Littlefield Unified District
ADM adjustments due to enrollment data errors
Fiscal years 2016, 2017 and 2018

	2016	2017	2018	Total
Incorrect FTE	0.75	0.00	0.31	1.06
Attended	(3.42)	(0.44)	-	(3.86)
Incorrect enrollment dates	(1.22)	-	-	(1.22)
Total	(3.89)	(0.44)	0.31	(4.02)

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

The District failed to comply with statute and ADE guidelines

The District did not follow statute and ADE guidelines when calculating and reporting student FTE or student enrollment data.

Auditors determined that six of the District’s students had their FTE reported incorrectly. These students were incorrectly reported because they did not meet the statutory requirements for full time enrollment. The District must ensure that it properly calculates and reports students’ FTE pursuant to A.R.S. § 15-901 and ADE External Guideline and Procedures GE-18.

Additionally, the District misreported the enrollment dates of three students to ADE according to the District’s student attendance records. The District must ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901 and ADE External Guideline and Procedures GE-17.

Finally, the District did not receive funding for six students that attended. The District must ensure eligible students are reported to ADE for funding. The District should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE’s System and reconcile them to the District’s SMS data to identify any discrepancies that would affect funding and correct any errors identified.

In the future, the District must ensure it complies with statute and ADE guidelines to properly calculate and report FTE and report student enrollments.

The District was underfunded by \$24,216.88

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate student data reported to ADE for fiscal years 2016, 2017 and 2018. The student data incorrectly reported by the District resulted in its ADM being understated by 4.02. Due to the

change in funding from prior year to current year, the ADM adjustment for fiscal year 2017 did not impact Basic State Aid. As a result, as shown in Table 3, the District was underfunded by \$24,216.88 which ADE must pay the District pursuant to A.R.S. § 15-915.

Table 3
Littlefield Unified District
ADM and funding adjustments due to enrollment data errors
Fiscal years 2016, 2017 and 2018

	2016	2017	2018	Total
ADM	(3.89)	(0.44)	0.31	(4.02)
Total funding adjustments	\$ (25,978.59)	-	\$ 1,761.71	\$ (24,216.88)

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

Recommendations:

1. ADE must pay the District \$24,216.88 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 must ensure that it properly calculates and reports student enrollment and FTE 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 2016 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 \$24,216.88 required to be paid to the District—Auditors identified an overall funding adjustment of \$24,216.88 for the three fiscal years audited due to inaccurate student enrollment data.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for fiscal years 2016, 2017 and 2018.

Table 4
Littlefield Unified District
ADM and funding adjustments
Fiscal years 2016, 2017 and 2018

	2016	2017	2018	Total
ADM adjustment	(3.89)	(0.44)	0.31	(4.02)
Total funding adjustment	\$ (25,978.59)	-	\$ 1,761.71	\$ (24,216.88)

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