



## Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-4036

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

Report Number—20-3

August 27, 2019



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## Arizona Department of Education

### Audit Unit

August 27, 2019

Bryan Bullington, Superintendent  
Bagdad Unified District  
515 Breezy Circle  
Bagdad, AZ 86321

Dear Superintendent Bullington:

The Arizona Department of Education Audit Unit has conducted an audit of the Bagdad 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 had misreported its ADM in each of the three fiscal years due to incorrect enrollment dates, incorrect FTE, students who attended that were not reported to ADE and a student reported to ADE's System for funding who did not attend, which resulted in its ADM being understated by 0.29. As a result, the District was overfunded by \$647.99 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

**Kathy Hoffman, Superintendent of Public Instruction**

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# TABLE OF CONTENTS

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|   | <u>Page</u> |
|---|-------------|
| <b>Introduction and background</b> .....  | <b>1</b>    |
| <b>Scope and methodology</b> .....  | <b>3</b>    |
| <b>Finding 1: The District did not accurately report some student data, resulting in an overpayment of \$647.99</b> ..... | <b>4</b>    |
| The District inaccurately reported some student data.....   | 4           |
| The District must properly reconcile its enrollment data with ADE.....  | 5           |
| The District was overfunded by \$647.99 .....   | 5           |
| Recommendations.....  | 6           |
| <b>Finding 2: The District did not properly maintain some student records as required by statute and guideline</b> .....  | <b>7</b>    |
| The District did not properly maintain student file documentation.....  | 7           |
| Recommendation .....  | 8           |
| <b>ADM and funding adjustments</b> .....  | <b>9</b>    |

# TABLE OF CONTENTS (CONT'D)

---

|   | <u>Page</u> |
|---|-------------|
| <b>Tables:</b>  |             |
| 1 Bagdad Unified District<br>Total students, revenues and expenditures<br>Fiscal years 2016, 2017 and 2018<br>(Unaudited) ..... | 2           |
| 2 Bagdad Unified District<br>ADM adjustments due to enrollment data errors<br>Fiscal years 2016, 2017 and 2018 .....            | 5           |
| 3 Bagdad Unified District<br>ADM and funding adjustments<br>Fiscal years 2016, 2017 and 2018 .....                              | 6           |
| 4 Bagdad Unified District<br>Student cumulative file documentation<br>Fiscal years 2016, 2017 and 2018 .....                    | 8           |
| 5 Bagdad Unified District<br>ADM and funding adjustments<br>Fiscal years 2016, 2017 and 2018 .....                              | 9           |

# INTRODUCTION AND BACKGROUND

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Bagdad 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 Bagdad, Arizona, offered instruction in grades Preschool through 12 during the fiscal years audited. They had one high school, one middle 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**

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

|                           | 2016                       | 2017                       | 2018                       |
|---------------------------|----------------------------|----------------------------|----------------------------|
| <b>Students enrolled</b>  | <b>451</b>                 | <b>404</b>                 | <b>410</b>                 |
| <b>Number of teachers</b> | <b>31</b>                  | <b>29</b>                  | <b>33</b>                  |
| <b>Revenue</b>            |                            |                            |                            |
| Local                     | \$ 4,732,016               | \$ 4,876,508               | \$ 4,798,751               |
| Intermediate              | \$ 0                       | \$ 21,230                  | \$ 95,458                  |
| State                     | \$ 298,837                 | \$ 299,913                 | \$ 555,212                 |
| Federal                   | \$ 284,537                 | \$ 187,233                 | \$ 243,082                 |
| <b>Total revenues</b>     | <b><u>\$ 5,315,389</u></b> | <b><u>\$ 5,384,884</u></b> | <b><u>\$ 5,692,503</u></b> |
| <b>Total expenditures</b> | <b><u>\$ 5,202,763</u></b> | <b><u>\$ 5,159,383</u></b> | <b><u>\$ 5,473,848</u></b> |

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

## SCOPE AND METHODOLOGY

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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 151 of 1,298 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.
- **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.
- **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.
- **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. When students with a special education category also had an adjustment, auditors made an adjustment to the special education weight as well.
- **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 ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN OVERPAYMENT OF \$647.99**

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Auditors determined that the District inaccurately reported the student data for 14 students for fiscal years 2016, 2017 and 2018. Specifically, auditors found that one student had an incorrectly reported FTE, one student did not attend, three students were not reported to the State and nine students had incorrect enrollment dates. Furthermore, three of these students had additional SPED adjustments. In total, the District's ADM was understated by 0.29 for its students for the three fiscal years audited. Due to the inaccurate enrollment data, the District received a net overpayment of \$647.99 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 data**

The District inaccurately reported 14 student's enrollment data to ADE, which resulted in the District's ADM being understated by 0.29.

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 enrolled<sup>1</sup>. In addition, according to ADE External Guideline and Procedures GE-17 and A.R.S. § 15-901, apart from 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:

- 1 student had an incorrect FTE reported. As a result, the ADM for the District was overreported by 0.07.
- 1 student was reported as attended but did not actually attend the District. As a result, the ADM for the District was overreported by 0.43.

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<sup>1</sup> 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.

- 3 students attended the District but were not reported and funded as being enrolled in the District. As a result, the ADM for the District was underreported by 2.19.
- 9 students were reported with incorrect enrollment dates. As a result, the ADM for the District was overreported by 0.26.
- 3 of the students that had data reported incorrectly were also funded with a SPED category. As a result, the weighted SPED ADM for the District was overreported by 1.14.

As shown in Table 2, data reporting errors resulted in an ADM understatement of 0.29 for the three fiscal years audited.

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

|              | <b>Incorrect FTE</b> | <b>Did not attend</b> | <b>Attended</b> | <b>Incorrect enrollment dates</b> | <b>SPED</b> | <b>Total</b>  |
|--------------|----------------------|-----------------------|-----------------|-----------------------------------|-------------|---------------|
| 2016         | -                    | 0.43                  | (0.50)          | (0.01)                            | (0.00)      | (0.08)        |
| 2017         | 0.07                 | -                     | (1.69)          | 0.05                              | -           | (1.57)        |
| 2018         | -                    | -                     | -               | 0.22                              | 1.14        | 1.36          |
| <b>Total</b> | <b>0.07</b>          | <b>0.43</b>           | <b>(2.19)</b>   | <b>0.26</b>                       | <b>1.14</b> | <b>(0.29)</b> |

Source: Auditor analysis of District records, ADE data for fiscal years 2016, 2017 and 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. Additionally, 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 overfunded by \$647.99**

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 0.29. However, since the District was not eligible for Basic State Aid for its high school students, only the adjustments identified by auditors for the District’s K-8 students are eligible for Basic State Aid adjustments.

In addition, 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 other than District Additional Assistance. As a result, as shown in Table 3, the District was overfunded by \$647.99 which the District must repay to ADE pursuant to A.R.S. § 15-915.

**Table 3**

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

|              | <b>ADM adjustment</b> | <b>Total</b>     |
|--------------|-----------------------|------------------|
| 2016         | (0.08)                | \$ (3,375.21)    |
| 2017         | (1.57)                | \$ -             |
| 2018         | 1.36                  | \$ 4,023.20      |
| <b>Total</b> | <b>(0.29)</b>         | <b>\$ 647.99</b> |

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

**Recommendations:**

1. The District must pay ADE \$647.99 in Basic State Aid due to incorrectly reported student data.
2. The District must ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.
3. The District must reconcile to ensure that all students are accounted for in both ADE's system and the District student information system and check to verify enrollment dates are reported accurately pursuant to A.R.S. § 15-901.

## **FINDING 2: THE DISTRICT DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE**

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Auditors determined that the District failed to properly maintain residency and birth certificate 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 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 residency documentation for all students as required by statute and ADE guidelines. Of the 60 students sampled, 60 of the student files did not have the proper residency documentation and one did not have a birth certificate in their file. Table 4 lists the student file documentation maintained by the District for fiscal years 2016, 2017 and 2018. 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.

Auditors also determined that the District failed to maintain birth certificate documentation for one student 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.

**Table 4**

**Bagdad Unified District  
Student cumulative file documentation  
Fiscal years 2016, 2017 and 2018**

|              | <b>Total sampled</b> | <b>Missing residency documentation</b> | <b>Missing birth certificate</b> |
|--------------|----------------------|--|----------------------------------|
| 2016         | 20                   | 20                                     | -                                |
| 2017         | 20                   | 20                                     | 1                                |
| 2018         | 20                   | 20                                     | -                                |
| <b>Total</b> | <b>60</b>            | <b>60</b>                              | <b>1</b>                         |

Source: Auditor analysis of District records for fiscal years 2016, 2017 and 2018.

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 and birth certificate documentation as required by law.

**Recommendation:**

1. The District must comply with statute and collect and maintain in each student's cumulative file copies of verifiable residency and birth certificate documentation as required by law.

## ADM and funding adjustments

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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 \$647.99 required to be paid by the District**—Auditors identified an overall funding adjustment of \$647.99 for the three fiscal years audited due to inaccurate student enrollment data.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for fiscal years 2016, 2017 and 2018.

**Table 5**

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

|                           | <b>2016</b>          | <b>2017</b> | <b>2018</b>        | <b>Total</b>     |
|---------------------------|----------------------|-------------|--------------------|------------------|
| ADM adjustment            | (0.08)               | (1.57)      | 1.36               | (0.29)           |
| <b>Funding adjustment</b> | <b>\$ (3,375.21)</b> | <b>\$ -</b> | <b>\$ 4,023.20</b> | <b>\$ 647.99</b> |

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