



## Arizona Department of Education

The Audit Unit  
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Phoenix, Arizona 85007  
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# Average Daily Membership Audit Report Madison Elementary District Fiscal Years 2016, 2017 and 2018

Report Number—20-6  
August 28, 2019



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## Arizona Department of Education

Audit Unit

August 28, 2019

Dr. Kenneth Baca, Superintendent  
Madison Elementary District  
5601 N. 16<sup>th</sup> Street  
Phoenix, AZ 85016

Dear Superintendent Baca:

The Arizona Department of Education Audit Unit has conducted an audit of the Madison Elementary 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 was overfunded by \$69,409.46 due to an ADM overstatement of 14.60, which the District must repay to ADE. Additionally, auditors determined that the District failed to properly maintain some required documentation.

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

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Madison Elementary 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 Phoenix, Arizona, had 8 elementary schools and offered instruction in grades PS through 8 during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for fiscal years 2016, 2017 and 2018.

**Table 1**

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

	2016	2017	2018
<b>Students enrolled</b>	<b>6,105</b>	<b>6,068</b>	<b>5,750</b>
<b>Number of teachers</b>	<b>283</b>	<b>292</b>	<b>294</b>
<b>Revenue</b>			
Local	\$45,568,708	\$46,158,296	\$48,878,626
Intermediate	\$895,811	\$880,839	\$903,003
State	\$14,323,211	\$13,017,839	\$14,399,604
Federal	\$4,211,780	\$3,729,293	\$4,523,078
<b>Total revenues</b>	<b>\$64,999,510</b>	<b>\$63,786,267</b>	<b>\$68,704,311</b>
<b>Total expenditures</b>	<b>\$60,932,586</b>	<b>\$59,366,006</b>	<b>\$80,277,785</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 1,871 of 18,701 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 adjusted 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.
- **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 audit.



# **FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN OVERPAYMENT OF \$69,409.46**

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Auditors determined that the District inaccurately reported the student data for 22 students for fiscal years 2016, 2017 and 2018. Specifically, auditors found that 11 students had insufficient or incorrect homebound instruction, five students were reported but did not attend the District, five students did attend the District but were not funded and one student was incorrectly marked as a tuition payer code 2. Furthermore, seven of these students had additional SPED adjustments. In total, the District's ADM was overstated by 14.60 for its students for the three fiscal years audited. Due to the inaccurate enrollment data, the District received a net overpayment of \$69,409.46 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 22 student's enrollment data to ADE, which resulted in the District's ADM being overstated by \$69,409.46.

- 11 students did not receive sufficient homebound instruction or homebound service dates were incorrect. As a result, the ADM for the District was overreported by 4.46.
- 5 students were reported as attending but did not actually attend the District. As a result, the ADM for the District was overreported by 0.10.
- 5 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 4.85.
- 1 student was reported as a tuition payer code 2 and was not funded and student should have been reported as a tuition payer code 1. As a result, the ADM for the District was underreported by 1.00.
- 7 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 15.89.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 14.60 for the three fiscal years audited.

**Table 2**

**Madison Elementary District  
ADM adjustments due to enrollment data errors  
Fiscal years 2016, 2017 and 2018**

	<b>Did not attend</b>	<b>Attended</b>	<b>Homebound</b>	<b>Incorrect tuition payer</b>	<b>SPED</b>	<b>Total</b>
2016	-	(4.00)	0.15	-	(0.00)	(3.85)
2017	0.05	(0.85)	1.93	-	7.95	9.08
2018	0.05	-	2.38	(1.00)	7.94	9.37
<b>Total</b>	<b>0.10</b>	<b>(4.85)</b>	<b>4.46</b>	<b>(1.00)</b>	<b>15.89</b>	<b>14.60</b>

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

**The District failed to comply with statute and ADE guidelines**

The District had five students reported to ADE that did not attend, did not report five students to ADE that did attend and incorrectly reported one student with tuition payer code 2. The District must ensure eligible students are reported to ADE appropriately 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.

The District also misreported 11 homebound students. According to ARS § 15-901, a homebound student must be certified by a medical doctor as being unable to attend regular classes for a period of not less than three school months during a school year. A homebound student can be counted as in attendance for each day in a week where at least four hours of instruction were provided. However, the District incorrectly reported homebound enrollment dates or did not provide at least four hours of instruction per week.

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

**The District was overfunded by \$69,409.46**

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 overstated by 14.60. However, due to the change in funding from prior year to current year, the ADM adjustment for FY2016 did not impact Basic State Aid except for District Additional Assistance. As a result, the District was overfunded by \$69,409.46 in Basic State Aid for the three fiscal years audited, as shown in Table 3, which ADE must recoup from the District pursuant to A.R.S. § 15-915.

**Table 3**

**Madison Elementary District  
ADM and funding adjustments  
Fiscal years 2016, 2017 and 2018**

	<b>ADM Adjustment</b>	<b>Total</b>
2016	(3.85)	-
2017	9.08	\$33,537.38
2018	9.37	\$35,872.08
<b>Total</b>	14.60	\$69,409.46

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

**Recommendations:**

1. The District must pay to ADE \$69,409.46 in Basic State Aid due to incorrectly reported student data.
2. 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.
3. The District must collect required homebound documentation and service homebound students for a minimum of four hours per week for every week the student is considered homebound for these students to be funded accurately.

## **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, birth certificate and immunization documentation for some students as required by statute and ADE guidelines. 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 documentation**

Auditors determined that the District failed to maintain residency documentation for 13 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. 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 three students as required by statute. According to A.R.S. § 15-828, a copy of the student's birth certificate or other reliable proof of the student's identity and age must be kept by the District.

In addition, auditors determined that the District failed to maintain immunization documentation for five students as required by statute. According to A.R.S. § 15-872, "A pupil shall not be allowed to attend school without submitting documentary proof to the school administrator unless the pupil is exempted from immunization pursuant to section 15-873."

Table 4 lists the documentation maintained by the District for fiscal years 2016, 2017 and 2018.

**Table 4**

**Madison Elementary District  
Student documentation  
Fiscal years 2016, 2017 and 2018**

	<b>Total sampled</b>	<b>Missing residency documentation</b>	<b>Missing birth certificate</b>	<b>Missing immunization</b>
2016	29	4	-	-
2017	30	2	2	1
2018	30	7	1	4
<b>Total</b>	<b>89</b>	<b>13</b>	<b>3</b>	<b>5</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 copies of verifiable residency, birth certificate documentation and immunization documentation as required by law.

**Recommendation:**

1. The District must comply with statute and collect and maintain copies of verifiable residency, birth certificate and immunization 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 \$69,409.46 required to be paid to ADE**—Auditors identified an overall funding adjustment of \$69,409.46 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**

**Madison Elementary 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	(3.85)	9.08	9.37	14.60
<b>Funding adjustment</b>	<b>\$ -</b>	<b>\$ 33,537.38</b>	<b>\$ 35,872.08</b>	<b>\$ 69,409.46</b>

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