



Arizona Department of Education

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Average Daily Membership Audit Report Southern Arizona Community Academy, Inc. Fiscal Years 2016, 2017 and 2018

Report Number—20-04
July 31, 2019



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Arizona Department of Education

Kathy Hoffman
Superintendent of
Public Instruction

July 31, 2019

Abelardo Cubillas, Director
Southern Arizona Community Academy, Inc.
2470 N. Tucson Blvd.
Tucson, AZ 85716

Dear Mr. Cubillas,

The Arizona Department of Education Audit Unit has conducted an audit of the Southern Arizona Community Academy, Inc. (School) Average Daily Membership (ADM) for fiscal years 2016, 2017 and 2018. The purpose of the audit was to address whether the School properly reported student enrollment to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School incorrectly reported some enrollment data, which resulted in an overstatement of 21.88 ADM and an overfunding of \$162,622.89 in Basic State Aid, which the School must pay ADE as required by statute.

We appreciate the cooperation and assistance provided by the School'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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TABLE OF CONTENTS

	<u>Page</u>
Introduction and background.....	1
Scope and methodology	3
Finding 1: The School did not accurately report some student data resulting in an overpayment of \$162,622.89	4
The School inaccurately reported some student enrollment data.....	4
The School failed to comply with statute and ADE guidelines	5
The School must maintain course documentation	6
The School was overfunded by \$162,622.89.....	6
Recommendations	7
ADM and funding adjustments.....	8

TABLE OF CONTENTS (CONT'D)

Page

Tables:

1	Southern Arizona Community Academy, Inc. Total students, revenues and expenditures Fiscal years 2016, 2017 and 2018 (Unaudited)	2
2	Southern Arizona Community Academy, Inc. ADM adjustments due to enrollment data errors Fiscal years 2016, 2017 and 2018	5
3	Southern Arizona Community Academy, Inc. ADM and funding adjustments due to enrollment data errors Fiscal years 2016, 2017 and 2018	7
4	Southern Arizona Community Academy, Inc. ADM and funding adjustments Fiscal years 2016, 2017 and 2018	8

Introduction and background

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of Southern Arizona Community Academy, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School 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.

School information—In fiscal years 2016, 2017 and 2018, the School had one high school located in Tucson, Arizona and one Arizona Online Instruction (AOI) school. The School offered instruction in grades 9 through 12.

Table 1 presents the School’s unaudited student, staffing and financial information for fiscal years 2016, 2017 and 2018.

Table 1

**Southern Arizona Community Academy, Inc.
Total students, revenues and expenditures
Fiscal years 2016, 2017 and 2018
(Unaudited)**

	2016	2017	2018
Students enrolled	167	168	162
Number of teachers	17	14	12
Revenue			
Local	\$ 26,164	\$ 52,546	\$ 32,762
County	0	0	0
State	1,662,865	1,200,638	1,446,325
Federal	<u>0</u>	<u>0</u>	<u>0</u>
Total revenues	<u>1,689,029</u>	<u>1,253,184</u>	<u>1,479,087</u>
Total expenditures	<u>\$ 1,579,679</u>	<u>\$ 1,492,812</u>	<u>\$ 1,493,053</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 School 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 (USFRCS) 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 School and ADE records to review 237 of 742 students. 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 School policies and procedures and interviewed School management and staff. Specifically:

- **Enrollment data**— Auditors reviewed student schedules, enrollment dates, 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.
- **AOI data**—Auditors compared 100% of the Arizona Online Instruction data that was reported to ADE to the AOI data from the School. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. When the data reported to ADE was incorrect, an adjustment was determined.
- **Student files**—Auditors reviewed student files to ensure that they maintained required residency documentation. No material findings were identified for this area.
- **FTE calculations** – Auditors reviewed the bell schedules and student schedules to determine whether the School 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 School and compared the FTE to what was reported to ADE. When the FTE was incorrect, auditors made an adjustment.
- **Instructional hours**—Auditors reviewed the School’s bell schedules and calendars for the fiscal years audited and determined that the School provided at least the minimum number of instructional hours as required by statute for each grade level.
- **Special education (SPED) data**— Auditors reviewed the students to determine if any were also funded for one of the special education categories. No material findings were identified for this area.
- **Limiting**—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited. No material findings were identified for this area.

The Audit Unit expresses its appreciation to the Southern Arizona Community Academy, Inc.’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$162,622.89

The School inaccurately reported the student enrollment data for 67 of its students for fiscal years 2016, 2017 and 2018. Specifically, auditors determined that 58 students had FTE reported incorrectly, one student had an incorrect enrollment date, and six students had not attended the School. In addition, at the AOI two students should have been reported as part time. As a result, the School's ADM was overstated by 21.88 for its students for the three fiscal years audited. The School received a net overpayment of \$162,622.89 in Basic State Aid for the three fiscal years audited which the School must pay to ADE pursuant to A.R.S. § 15-915.

The School inaccurately reported some student enrollment data

The School inaccurately reported the enrollment data for 67 students to ADE due to various errors, which resulted in the School's ADM being overstated by 21.88.

According to 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. 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.¹ 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. SF-0003 also 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 School did not always adhere to these requirements. Specifically, for the students that were sampled:

- 58 students had FTE reported incorrectly, which resulted in the School's ADM being overstated by 18.39.
- 1 student had an incorrect enrollment date, which resulted in the School's ADM being overstated by 0.12.

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.

- 6 students were reported as attending but did not actually attend the School. As a result, the ADM for the School was overreported by 3.34.
- 2 AOI students were incorrectly reported as full time and should have been reported as part time. As a result, the weighted AOI ADM for the School was overreported by 0.03.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 21.88 for fiscal years 2016, 2017 and 2018.

Table 2

**Southern Arizona Community Academy, Inc.
ADM adjustments due to enrollment data errors
Fiscal years 2016, 2017 and 2018**

	FTE	Enrollment date	Did not attend	AOI	Total
2016	4.57	0.12	3.34	0.00	8.03
2017	5.17	0.00	0.00	0.03	5.20
2018	8.65	0.00	0.00	0.00	8.65
Total	18.39	0.12	3.34	0.03	21.88

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

The School failed to comply with statute and ADE guidelines

The School did not follow statute and ADE guidelines when calculating and reporting FTE, student enrollment and AOI data.

Auditors determined that 58 of the School’s students did not meet the statutory and ADE guideline requirements for FTE. According to analysis of the School’s schedule and calendar for the School’s high school, auditors determined that as long as a student enrolled in four courses during the year, they would receive enough hours and courses to be considered full time. However, the FTE that was reported for 58 students was not correct based on the number of courses the students were enrolled in. As a result, the School overreported the FTE for 58 students.

Additionally, the School misreported the enrollment data of seven students. 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. The School incorrectly reported the exit date of one student and six students were reported to ADE that did not attend. As a result, the School overreported the ADM for seven students.

The School also misreported the AOI data of two students. SF-0003 also states that full time AOI students must enroll in and participate in four or more classes during the year. The School incorrectly reported two students as full time when they were enrolled in fewer than four classes during the year. As a result, the School overreported the weighted AOI ADM for these two students.

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

The School must maintain course documentation

For all three fiscal years audited, the School failed to maintain sufficient documentation to support length of courses and student participation in courses. According to A.R.S. § 15-901 and ADE Guidelines and Procedures GE-18, for a high school student to be reported as 1.0 FTE, the student must be enrolled in at least four courses which meet at least 123 hours annually. However, the School failed to maintain documentation to support that the classes offered met the minimum of at least 123 hours annually.

In addition, A.R.S. § 15-901 requires that “the pupil is actually and physically in attendance and enrolled in and carrying four subjects.” ADE School Finance Manual, section D-1 requires school districts and charter operators to “maintain a sufficient audit trail of attendance documentation to be able to validate the accuracy of the attendance information reported to ADE.” The School failed to maintain documentation to support that the students actually attended and participated in each of the classes they were enrolled in.

The School should ensure that a process is in place that captures the length of courses to demonstrate that they are at least 123 hours, as well as documenting that students are physically participating in classes that are used to determine FTE.

The School was overfunded by \$162,622.89

Auditors determined that the School 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 School resulted in its ADM being overstated by 21.88 for the three fiscal years audited. As a result, the School was overfunded by \$162,622.89 which the School must pay to ADE pursuant to A.R.S. § 15-915.

Table 3

**Southern Arizona Community Academy, Inc.
ADM and funding adjustments due to enrollment data errors
Fiscal years 2016, 2017 and 2018**

	2016	2017	2018	Total
ADM	8.03	5.20	8.65	21.88
Total funding adjustments	\$ 57,594.12	\$ 40,661.76	\$ 64,367.01	\$ 162,622.89

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

Recommendations:

1. The School must pay ADE \$162,622.89 in Basic State Aid due to incorrectly reported enrollment data.
2. The School must ensure that it properly calculates and reports students' enrollment dates and FTE pursuant to statute and ADE guidelines.
3. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.
4. The School must ensure that a process is in place that captures the length of courses to demonstrate that they are at least 123 hours.
5. The School must ensure it documents attendance in each of the classes students are enrolled in.

ADM AND FUNDING ADJUSTMENTS

A.R.S. § 15-915 requires that ADE makes corrections for audit findings to 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 FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

Basic State Aid adjustment of \$162,622.89 required to be paid to ADE—Auditors identified an overall funding adjustment of \$162,622.89 for the three fiscal years audited due to inaccurate student enrollment data reported to ADE.

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

Table 4

**Southern Arizona Community Academy, Inc.
ADM and funding adjustments
Fiscal years 2016, 2017 and 2018**

	2016	2017	2018	Total
ADM adjustments	8.03	5.20	8.65	21.88
Funding adjustments	\$57,594.12	\$40,661.76	\$64,367.01	\$162,622.89

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