



Arizona Department of Education

The Audit Unit

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

Report Number—20-07

August 22, 2019



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Arizona Department of Education

Audit Unit

August 22, 2019

Matthew D. Petersen
Thatcher Unified School District
3490 W. Main Street
Thatcher, AZ 85552

Dear Superintendent Petersen:

The Arizona Department of Education Audit Unit has conducted an audit of the Thatcher Unified School District (“the 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 \$1,643.16 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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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Thatcher Unified School District (“the 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 Thatcher, Arizona, offered instruction in grades K through 12 during the fiscal years audited. They operated one high school, one middle school, and two elementary schools. Table 1 presents the District’s unaudited student, staffing and financial information for fiscal years 2016, 2017 and 2018.

Table 1

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

	2016	2017	2018
Students enrolled	1,700	1,717	1,637
Number of teachers	89	88	89
Revenue			
Local	\$ 2,743,774	\$ 2,897,962	\$ 2,950,250
Intermediate	\$ 259,965	\$ 225,402	\$ 231,107
State	\$ 7,964,863	\$ 8,971,937	\$ 8,380,623
Federal	\$ 695,811	\$ 729,580	\$ 888,010
Total revenues	\$ 11,664,413	\$ 12,824,881	\$ 12,449,990
Total expenditures	\$ 11,463,976	\$ 12,956,934	\$ 12,141,016

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 for Arizona School Districts (USFR) and its own policies and procedures for FY2016, FY2017 and FY2018.

To conduct this audit, auditors used a variety of methods, including examining District and ADE records to review 531 of 5,299 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. No findings were identified for this area.
- **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 \$1,643.16

Auditors determined that the District inaccurately reported the student data for five students for FY2016, FY2017 and FY2018. Specifically, auditors found that four students had an incorrectly reported FTE and one student had an incorrect exit date. As a result of these errors, the District's ADM was overreported by 0.35. As a result, the District was overfunded by \$1,643.16 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the District.

The District inaccurately reported some student data

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. In addition, according to ADE External Guideline and Procedures GE-17 and EX-1, 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, during the audit, auditors found that the District did not always comply with this. Specifically:

- 4 students had an incorrect FTE reported. As a result, the ADM for the District was overreported by 0.32.
- 1 student was reported with an incorrect exit date. As a result, the ADM for the District was overreported by 0.03.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 0.35 for the three fiscal years audited.

Table 2

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

	Incorrect FTE	Incorrect exit date	Total
2016	-	0.03	0.03
2017	0.13	-	0.13
2018	0.18	-	0.18
Total	0.32	0.03	0.35

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

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 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 \$1,643.16

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 FY2016, FY2017 and FY2018. The student data incorrectly reported by the District resulted in its ADM being overstated by 0.35. 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 \$1,643.16 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

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

	ADM adjustment	Total
2016	0.03	-
2017	0.13	\$681.00
2018	0.18	\$962.16
Total	<u>0.35</u>	<u>\$1,643.16</u>

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

Recommendations:

1. The District must repay to ADE \$1,643.16 in Basic State Aid due to incorrectly reported student data.
2. The District needs to ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.
3. The District must reconcile to ensure that 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

Auditors determined that the District failed to properly maintain residency 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 some 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 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.

The District did not maintain the proper documentation required by statute and ADE’s residency guideline. Of the 74 students sampled, 41 of the student files did not have the proper residency documentation. Table 4 lists the student file documentation maintained by the District for FY2016, FY2017 and FY2018.

Table 4

**Thatcher Unified School District
Student Cumulative File Documentation
Fiscal years 2016, 2017 and 2018**

	Total sampled	Missing residency documentation
2016	25	15
2017	25	12
2018	24	14
Total	<u>74</u>	<u>41</u>

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 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 as required by law.

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 \$1,643.16 required to be paid to ADE—Auditors identified an overall funding adjustment of \$1,643.16 for the three fiscal years audited due to inaccurate student enrollment.

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

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

	2016	2017	2018	Total
ADM adjustment	0.03	0.13	0.18	0.35
Funding adjustment	=	<u>\$681.00</u>	<u>\$962.16</u>	<u>\$1,643.16</u>

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