



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Superior Unified School District Fiscal Years 2017, 2018 and 2019

Report Number—20-16

November 22, 2019



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Arizona Department of Education

Audit Unit

November 22, 2019

Stephen Estatico, Superintendent
Superior Unified School District
1500 W Panther Dr. STE 101
Superior, AZ 85173

Dear Superintendent Estatico:

The Arizona Department of Education Audit Unit has conducted an audit of the Superior Unified School District (District) Average Daily Membership (ADM) for Fiscal Years 2017, 2018 and 2019. 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 found that some data was incorrect, which resulted in a net overstatement of 0.33 ADM with net overfunding of \$2,408.17 in Basic State Aid, which the District must repay to ADE.

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 Superior Unified School 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) 2017 through 2019.

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 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.

District information—The District, located in Superior, Arizona, offered instruction in Kindergarten through grade 12 during the fiscal years audited. They operated one elementary school, one junior high school and one senior high school during FY 2017. During FY 2018 and 2019, the District operated two schools, one elementary school and one junior/senior high school combined. Table 1 presents the District’s unaudited student, staffing and financial information for FY 2017, FY 2018 and FY 2019.

Table 1

**Superior Unified School District
Total students, revenues and expenditures
Fiscal years 2017, 2018 and 2019
(Unaudited)**

	2017	2018	2019
Students Enrolled	381	381	343
Number of Teachers	19	18	17
Revenue			
Local	\$2,071,003	\$ 1,790,460	\$ 235,928
Intermediate	\$94,464	\$219,369	\$ 66,330
State	\$1,700,214	\$1,546,854	\$ 1,343,983
Federal	\$569,547	\$563,468	\$ 446,610
Total Revenues	<u>\$4,435,228</u>	<u>\$4,120,151</u>	<u>\$ 2,092,851</u>
Total Expenditures	<u>\$4,429,359</u>	<u>\$4,160,863</u>	<u>\$ 3,607,958</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2017, 2018; and Superior Unified School District Annual Expenditure Budget and APOR 55-1 reports for fiscal year 2019.

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 FY 2017, FY 2018 and FY 2019.

To conduct this audit, auditors used a variety of methods, including examining District and ADE records to review 150 of 1,170 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, no findings were identified for this area.
- **Student Files** – Auditors reviewed student files to ensure that they maintained required documentation such as birth certificates, immunization records, and supporting residency documentation. No material findings were identified for this area.
- **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 FY2017, FY2018 and FY2019. 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. 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 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 \$2,408.17

Auditors determined that the District inaccurately reported the student data for eight students for FY 2017, FY 2018 and FY 2019. Specifically, auditors found that seven high school students and one eight grade student had an incorrectly reported FTE. As a result of these errors, the District's ADM was overreported by 0.33. As a result, the District was overfunded by \$2,408.17 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

The District inaccurately reported eight students' FTE status to ADE, which resulted in the District's ADM being overstated by 0.33.

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 subjects which meet at least 123 hours annually each and total at least 720 instructional hours for the year. In addition, according to A.R.S. § 15-901, an eighth-grade student must be enrolled in an instructional program of at least 1,000 hours to be reported as full time. 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 Specifically, for the students that were sampled: 7 high school students and one eight grade student had an incorrect FTE reported, resulting in an overreporting of 0.33.

As shown in Table 2 (page 6), data reporting errors resulted in an ADM overstatement of 0.33 for the three fiscal years audited.

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 subjects 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 subjects 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 subjects 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 subject which meets for at least 123 hours annually.

Table 2

**Superior Unified School District
ADM adjustments due to incorrect FTE
Fiscal years 2017, 2018 and 2019**

	2017	2018	2019	Total
Incorrect FTE	(0.24)	0.12	0.45	0.33

Source: Auditor analysis of District records, ADE data for fiscal years 2017, 2018 and 2019.

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.

Auditors determined that seven of the District's high school students did not meet the statutory and ADE guideline requirements for full time enrollment (FTE). According to analysis of the District's bell schedule and calendar for the District's high school, auditors determined that as long as a student was enrolled in four courses for FY2017, five courses for FY2018 and four courses (with lunch) for FY2019, they would receive enough hours and courses to be considered full time. However, the FTE that was reported for seven students and one eight grade student was not correct based on the number of courses the students were enrolled in. As a result, the District overreported the FTE for eight students.

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

The District was overfunded by \$2,408.17

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 2017, 2018 and 2019. The student data incorrectly reported by the District resulted in its ADM being overstated by 0.33. As a result, the District was overfunded by \$2,408.17 in Basic State Aid for the three fiscal years audited. As shown in Table 3 (page 7), the District was overfunded by \$2,408.17 which ADE must recoup from the District pursuant to A.R.S. § 15-915

Table 3

**Superior Unified School District
ADM and Basic State Aid adjustments
Fiscal years 2017, 2018 and 2019**

	ADM	Basic State Aid
2017	(0.24)	(\$1,310.47)
2018	0.12	\$723.49
2019	0.45	\$2,995.15
Total	0.33	\$2,408.17

Source: Auditor analysis of District and ADE records for fiscal years 2017, 2018 and 2019.

Recommendations:

1. The District must repay to ADE \$2,408.17 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.

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 2013 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 \$2,408.17 required to be paid to ADE—Auditors identified an overall funding adjustment of \$2,408.17 for the three fiscal years audited due to inaccurate student enrollment.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for fiscal years 2017, 2018 and 2019.

**Table 4
Superior Unified School District
ADM and funding adjustments
Fiscal years 2017, 2018 and 2019**

	2017	2018	2019	Total
Incorrect FTE	(0.24)	0.12	0.45	0.33
Funding adjustment	(\$1,310.47)	\$723.49	\$2,995.15	\$2,408.17

Source: Auditor analysis of ADE and District student and financial data for fiscal years 2017, 2018 and 2019.