



Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

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Average Daily Membership Audit Report Isaac Elementary School District Fiscal Years 2017, 2018 and 2019

Report Number—20-21

December 13, 2019



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Arizona Department of Education

Audit Unit

December 13, 2019

Dr. Mario Ventura, Superintendent
Isaac Elementary School District
3348 West McDowell Road
Phoenix, AZ 85009

Dear Dr. Ventura:

The Arizona Department of Education Audit Unit has conducted an audit of the Isaac Elementary 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 determined that the District incorrectly reported the enrollment data of 16 students of the 2,352 sampled, which resulted in its ADM being overstated by 3.43 and weighted SPED ADM being overstated 4.21. As a result of the 7.64 total overstatement, the District was overfunded by \$33,241.39 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

	<u>Page</u>
Introduction and background	1
Scope and methodology	3
Finding 1: The District did not accurately report some student data, resulting in an overpayment of \$33,241.39	4
The District inaccurately reported some student data	4
The District failed to comply with statute and ADE guidelines	5
The District was overfunded by \$33,241.39	6
Recommendations	7
Finding 2: The District did not properly maintain some student records as required by statute and guideline	8
The District did not properly maintain student file documentation.....	8
Recommendation	9
ADM and funding adjustments	10

TABLE OF CONTENTS (CONT'D)

	<u>Page</u>
Tables:	
1 Isaac Elementary School District Total students, revenues and expenditures Fiscal Years 2017, 2018 and 2019 (Unaudited)	2
2 Isaac Elementary School District ADM adjustments due to enrollment data errors Fiscal Years 2017, 2018 and 2019.....	5
3 Isaac Elementary School District ADM and funding adjustments Fiscal Years 2017, 2018 and 2019.....	6
4 Isaac Elementary School District Student cumulative file documentation Fiscal Years 2017, 2018 and 2019.....	9
5 Isaac Elementary School District ADM and funding adjustments Fiscal Years 2017, 2018 and 2019.....	10

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Isaac Elementary 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 Phoenix, Arizona, offered instruction in grades Preschool through 8 during the fiscal years audited. They operated one preschool, two middle schools, and six elementary schools. Table 1 presents the District's unaudited student, staffing and financial information for FY2017, FY2018 and FY2019.

Table 1

**Isaac Elementary School District
Total students, revenues and expenditures
Fiscal Years 2017, 2018 and 2019
(Unaudited)**

	2017	2018	2019
Students Enrolled	7,388	6,798	6,002
Number of Teachers	398	312	316
Revenue			
Local	\$ 13,564,653	\$ 14,250,354	\$ 12,631,591
Intermediate	\$ 3,082,505	\$ 3,172,772	\$ 2,928,019
State	\$ 31,978,408	\$ 32,006,643	\$ 27,709,095
Federal	\$ 14,327,467	\$ 13,941,962	\$ -
Total Revenues	<u>\$ 62,953,034</u>	<u>\$ 63,371,732</u>	<u>\$ 38,661,353</u>
Total Expenditures	<u>\$ 64,810,660</u>	<u>\$ 65,823,612</u>	<u>\$ 43,696,360</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Years 2017 and 2018, District AFR 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 FY2017, FY2018 and FY2019.

To conduct this audit, auditors used a variety of methods, including examining District and ADE records to review 2,352 of 23,034 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.
- **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.
- **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 \$33,241.39

Auditors determined that the District inaccurately reported the student data for 16 students for FY2017, FY2018 and FY2019. Specifically, auditors found that 11 students had enrollment periods with excessive absences, one student had an incorrect enrollment date reported, two students were funded but had not attended the District or were not fundable, and two students were incorrectly reported as Homebound. In addition, six of these students also had an additional SPED category weight. As a result of these errors, the District's ADM was overreported by 7.64. As a result, the District was overfunded by \$33,241.39 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 16 students' enrollment data to ADE, which resulted in the District's ADM being overstated by 7.64.

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. Pursuant to A.R.S. §15-901 (A)(2), students absent for ten (10) consecutive school days, except for excused absences, shall be withdrawn from the school. In addition, beginning in FY2019 "ADE School Finance Manual G. Defining Excused Absences" went into effect, which required that students who have reached the 10% threshold for cumulative absences (excused or unexcused) based on the number of instructional days, may generate non-fundable ADM intervals. A.R.S. § 15-901 also defines homebound students as being certified by a medical doctor as being unable to attend regular classes for a period of not less than three school months.

However, the District did not always adhere to these requirements. Specifically, for the students that were sampled:

- 11 students incurred excessive absences. 5 students should have been withdrawn for 10 consecutive unexcused absences, and 6 students had a non-fundable interval due to excessive absences. As a result, the ADM for the District was overreported by 1.78.
- 2 students were reported as attended but did not actually attend the District or were not fundable. As a result, the ADM for the District was overreported by 0.02.

- 1 student was reported with an incorrect enrollment date. As a result, the ADM for the District was overreported by 0.02.
- 2 students were improperly reported as homebound. As a result, the ADM for the District was overreported by 1.61.
- 6 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 4.21.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 7.64 for the three fiscal years audited.

Table 2

**Isaac Elementary School District
ADM adjustments due to enrollment data errors
Fiscal Years 2017, 2018 and 2019**

	Excessive Absences	Incorrect Enrollment Dates	Did Not Attend	Homebound	SPED	Total
2017	-	-	-	-	-	-
2018	0.62	-	-	-	-	0.62
2019	1.16	0.02	0.02	1.61	4.21	7.02
Total	<u>1.78</u>	<u>0.02</u>	<u>0.02</u>	<u>1.61</u>	<u>4.21</u>	<u>7.64</u>

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 enrollment data.

The District misreported the enrollment data of three students. According to ARS § 15-901 (A)(2), the first day of membership for continuing or pre-enrolled students, shall be defined as either the first day a student physically attends school or the first day that classroom instruction is offered, provided that such students physically attend school within the first ten school days. For all other students, the first day of membership shall be defined as the first day a student physically attends school. The District incorrectly reported the entry/exit dates of one student and two students were reported to ADE that did not attend or were not fundable.

The District failed to properly withdraw students with excessive absences. According to A.R.S. §15-901 (A)(2), students absent for ten (10) consecutive school days, except for excused absences, shall be withdrawn from the school. Beginning in FY2019, according to “ADE School Finance Manual G. Defining Excused Absences,” students who have reached the 10% threshold for cumulative absences (excused or unexcused) based on the number of instructional days, may generate non-fundable ADM intervals. The District failed to withdraw five students with excessive absences and failed to report non-fundable intervals for six students in FY2019.

The District also misreported two students as being homebound. 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 the two students as being homebound. Although the District did obtain the proper medical certification, the District did not provide at least four hours of academic instruction to either student.

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 \$33,241.39

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 FY2017, FY2018 and FY2019. The student data incorrectly reported by the District resulted in its ADM being overstated by 7.64. As a result, the District was overfunded by \$33,241.39 in Basic State Aid for the three fiscal years audited which ADE must recoup from the District pursuant to A.R.S. § 15-915 as shown in Table 3.

Table 3

**Isaac Elementary School District
ADM and funding adjustments
Fiscal Years 2017, 2018 and 2019**

	ADM Adjustment	Total
2017	-	-
2018	0.62	\$2,838.01
2019	7.02	\$30,403.38
Total	7.64	\$33,241.39

Source: Auditor analysis of District and ADE records for Fiscal Years 2017, 2018 and 2019.

Recommendations:

1. The District must repay to ADE \$33,241.39 in Basic State Aid due to incorrectly reported student data.
2. The District must reconcile to ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901. The District must ensure that students with excessive absences be properly withdrawn as excessive absences beyond the 10% threshold will incur non-fundable ADM intervals.
3. The District must collect required homebound documentation and provide educational services to homebound students for a minimum of four hours per week for every week that the student is considered homebound for these students to be considered fundable.

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 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 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.

In addition, auditors also determined that the District failed to maintain birth certificate documentation for some students 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.

The District did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 300 students sampled, 105 of the student files did not have the proper residency documentation and one did not have a birth certificate in their file. Table 4 (see page 9) lists the student file documentation maintained by the District for FY2017, FY2018 and FY2019.

Table 4

**Isaac Elementary School District
Student cumulative file documentation
Fiscal Years 2017, 2018 and 2019**

	Total Sampled	Missing Residency Documentation	Missing Birth Certificate	Missing Immunization
2017	100	35	1	-
2018	100	43	0	-
2019	100	27	0	-
Total	<u>300</u>	<u>105</u>	<u>1</u>	<u>=</u>

Source: Auditor analysis of District records for Fiscal Years 2017, 2018 and 2019.

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

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 \$33,241.39 required to be paid to ADE—Auditors identified an overall funding adjustment of \$33,241.39 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 2017, 2018 and 2019.

Table 5

**Isaac Elementary School District
ADM and funding adjustments
Fiscal Years 2017, 2018 and 2019**

	2017	2018	2019	Total
ADM adjustment	-	0.62	7.02	7.64
Funding adjustment	-	\$2,838.01	\$30,403.38	\$33,241.39

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