



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Ombudsman Educational Services, Ltd. Fiscal Years 2016, 2017 and 2018

Report Number—20-18

December 12, 2019



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Arizona Department of Education

Audit Unit

December 12, 2019

Allison O'Neill, Charter Representative
Ombudsman Educational Services, Ltd.
3624 W. Bell Road Ste's 4, 5, 6
Glendale, AZ 85308

Dear Charter Representative O'Neill:

The Arizona Department of Education Audit Unit has conducted an audit of the Ombudsman Educational Services, Ltd. (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, and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School incorrectly reported the enrollment data of 131 students, which resulted in its ADM being overstated by 15.08. As a result, the School was overfunded by \$102,359.81 which the School must repay to ADE. Additionally, auditors determined that the School failed to properly maintain some required documentation in student cumulative files.

We appreciate the cooperation and assistance provided by the School'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 Ombudsman Educational Services, Ltd. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School 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.

School information—The School, located in Phoenix, Arizona, offered instruction in grades 6 through 12 during the fiscal years audited. The School operated four high schools in FY2016 and seven high schools in FY2017 and FY2018. Table 1 presents the School’s unaudited student, staffing and financial information for FY2016, FY2017 and FY2018.

Table 1

**Ombudsman Educational Services, Ltd.
Total students, revenues and expenditures
Fiscal years 2016, 2017 and 2018
(Unaudited)**

	2016	2017	2018
Students enrolled	415	1,233	1,411
Number of teachers	24	51	62
Revenue			
Local	\$ 2,867	\$ 6,361	\$ 14,728
Intermediate	\$ 0	\$ 0	\$ 0
State	\$ 3,174,194	\$ 9,292,917	\$ 10,825,477
Federal	\$ 0	\$ 0	\$ 0,
Total revenues	<u>\$ 3,177,061</u>	<u>\$ 9,299,278</u>	<u>\$ 10,840,205</u>
Total expenditures	<u>\$ 3,043,910</u>	<u>\$ 8,751,572</u>	<u>\$ 9,819,720</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 for Arizona Charter Schools (USFRCS) and its own policies and procedures for FY2016, FY2017 and FY2018.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 536 of 5,350 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 School policies and procedures and interviewed School 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.
- **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.
- **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 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.
- **SPED data** – Auditors determined whether an adjusted student had also been funded for a special education (SPED) category. No material findings were identified for this area.

The Audit Unit expresses its appreciation to the School’s administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN OVERPAYMENT OF \$102,359.81

Auditors determined that the School inaccurately reported the student data for 131 students for FY2016, FY2017 and FY2018. Specifically, auditors found that 84 students had an incorrectly reported FTE, 43 students had not attended courses at the School, three students did attend but were not reported, and one student had incorrect enrollment dates. As a result of these errors, the School's ADM was overreported by 15.08. As a result, the School was overfunded by \$102,359.81 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the School.

The School inaccurately reported some student data

The School inaccurately reported 131 student's enrollment data to ADE, which resulted in the School's ADM being overstated by 15.08.

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

- 84 students had an incorrect FTE reported. As a result, the ADM for the School was overreported by 8.83.
- 43 students were reported as attended but did not attend courses at the School. As a result, the ADM for the School was overreported by 7.00.
- 3 students attended the School but were not reported and funded as being enrolled in the School. As a result, the ADM for the School was underreported by 0.85.
- 1 student was reported with incorrect enrollment dates. As a result, the ADM for the School was overreported by 0.10.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 15.08 for the three fiscal years audited.

Table 2

**Ombudsman Educational Services, Ltd.
ADM adjustments due to enrollment data errors
Fiscal years 2016, 2017 and 2018**

	Incorrect Enrollment Dates	Incorrect FTE	Did not attend courses	Attended	Total
2016	-	1.57	0.98	-	2.55
2017	0.10	4.75	5.36	(0.80)	9.41
2018	-	2.51	0.66	(0.05)	3.12
Total	0.10	8.83	7.00	(0.85)	15.08

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 student FTE or student enrollment data.

Auditors determined that 84 of the School's students did not meet the statutory and ADE guideline requirements for full time enrollment (FTE). According to analysis of the School's bell schedule and calendar for the School's high school, auditors determined that as long as a student was enrolled in and participating in 4 courses each semester, they would receive enough hours and courses to be considered full time. However, the FTE that was reported for 84 students was not correct based on the number of courses the students were in. As a result, the School overreported the FTE for 84 students.

Additionally, the School misreported the enrollment data of 47 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 School incorrectly reported the entry/exit dates of one student, three students were not reported but were enrolled and attended and 43 students were not enrolled in and did not attend courses.

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

The School must maintain course documentation

For all three fiscal years audited, the School failed to maintain sufficient documentation to support course enrollment dates and student participation in courses. 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 supporting documentation to support that the students 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 correct course enrollment dates, as well as documenting that students are participating in classes that are used to determine FTE.

The School was overfunded by \$102,359.81

Auditors determined that the School 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 School resulted in its ADM being overstated by 15.08. As a result, the School was overfunded by \$102,359.81 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY2016, FY2017 and FY2018.

Table 3

**Ombudsman Educational Services, Ltd.
ADM and funding adjustments
Fiscal years 2016, 2017 and 2018**

	ADM Adjustment	Total
2016	2.55	\$ 17,084.54
2017	9.41	\$ 63,869.49
2018	3.12	\$ 21,405.78
Total	15.08	\$ 102,359.81

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

Recommendations:

1. The School must repay to ADE \$102,359.81 in Basic State Aid due to incorrectly reported student data.
2. The School needs to ensure that it properly calculates and reports students' FTE and enrollment dates pursuant to statute and ADE guidelines.
3. The School must ensure that student enrollment records are appropriately maintained as required by record retention schedules.

FINDING 2: THE SCHOOL DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE

Auditors determined that the School failed to properly maintain residency, birth certificate and immunization documentation for some students as required by statute and ADE guidelines. The School did not properly maintain required documentation in some of its student cumulative files. In the future, the School should properly maintain these documents to ensure compliance with statute and ADE guidelines.

The School did not properly maintain student file documentation

Auditors determined that the School 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.

Auditors also determined that the School 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.

In addition, auditors determined that the School failed to maintain immunization documentation for some 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."

The School did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 90 students sampled, 4 of the student files did not have the proper residency documentation, 4 did not have a birth certificate in their file and 2 students did not have immunization record documentation in their file. Table 4 lists the student file documentation maintained by the School for FY2016, FY2017 and FY2018.

Table 4

**Ombudsman Educational Services, Ltd.
Student cumulative file documentation
Fiscal years 2016, 2017 and 2018**

	Total sampled	Missing residency documentation	Missing birth certificate	Missing immunization
2016	30	1	1	-
2017	30	1	3	1
2018	30	2	-	1
Total	90	4	4	2

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

In the future, the School must ensure that it complies with statute by collecting and maintaining in each student's cumulative file copies of verifiable residency, birth certificate documentation and immunization documentation as required by law.

Recommendation:

1. The School must comply with statute by collecting and maintaining in each student's cumulative file copies of verifiable residency, birth certificate and immunization 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.

Basic State Aid adjustment of \$102,359.81 required to be paid to ADE—Auditors identified an overall funding adjustment of \$102,359.81 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 School for fiscal years 2016, 2017 and 2018.

Table 5

**Ombudsman Educational Services, Ltd.
ADM and funding adjustments
Fiscal years 2016, 2017 and 2018**

	2016	2017	2018	Total
ADM adjustment	2.55	9.41	3.12	15.08
Funding adjustment	\$ 17,084.54	\$ 63,869.49	\$ 21,405.78	\$ 102,359.81

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