



## Arizona Department of Education

The Audit Unit

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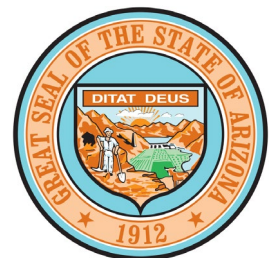
Phoenix, Arizona 85007

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# Average Daily Membership Audit Report Sedona-Oak Creek JUSD #9 Fiscal Years 2017, 2018 and 2019

Report Number—21-12

September 30, 2019



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## Arizona Department of Education

Audit Unit

September 30, 2020

Heather Shaw-Burton, Business Manager  
Sedona-Oak Creek JUSD #9  
221 Brewer Rd STE 100  
Sedona, AZ 86336

Dear Business Manager Shaw-Burton:

The Arizona Department of Education Audit Unit has conducted an audit of the Sedona-Oak Creek JUSD #9 (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 for 47 students during the three years audited, which resulted in its ADM being understated by 2.63. The District must adjust their budget capacity as a result of the ADM adjustments. 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

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Sedona-Oak Creek JUSD #9 (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 Sedona, Arizona, offered instruction in grades K through 12 during the fiscal years audited. They operated one high school, two middle schools in FY2017 and FY2018 and one middle school in FY2019, two elementary schools in FY2017 and 2018 and one elementary school in 2019. Table 1 presents the District’s unaudited student, staffing and financial information for FY 2017, FY 2018 and FY 2019.

**Table 1**

**Sedona-Oak Creek JUSD #9  
Total students, revenues and expenditures  
Fiscal years 2017, 2018 and 2019  
(Unaudited)**

|                           | <b>2017</b>                    | <b>2018</b>                   | <b>2019</b>                   |
|---------------------------|--------------------------------|-------------------------------|-------------------------------|
| <b>Students Enrolled</b>  | 1062                           | 955                           | 515                           |
| <b>Number of Teachers</b> | 58                             | 60                            | 49                            |
| <b>Revenue</b>            |                                |                               |                               |
| Local                     | \$13,903,803.00                | \$13,160,832.00               | \$13,091,834.00               |
| Intermediate              | \$ 0                           | \$0                           | \$0                           |
| State                     | \$1,3942,881.00                | \$2,045,729.00                | \$1,901,157.00                |
| Federal                   | \$ 910,598.00                  | \$877,037.00                  | \$726,895.00                  |
| <b>Total Revenues</b>     | <b><u>\$ 16,757,281.00</u></b> | <b><u>\$16,083,599.00</u></b> | <b><u>\$15,719,885.00</u></b> |
| <b>Total Expenditures</b> | <b><u>\$15,911,987.00</u></b>  | <b><u>\$12,989,007.00</u></b> | <b><u>\$8,637,771.00</u></b>  |

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2017, 2018 and 2019.

## SCOPE AND METHODOLOGY

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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 444 of 3150 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.
- **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 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. No findings were identified for this area.
- **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. 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 ADM UNDERSTATEMENT OF 0.04**

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Auditors determined that the District inaccurately reported the student data for two students for FY 2017, FY 2018 and FY 2019. Specifically, auditors found that one student was reported with incorrect enrollment dates and one student was reported with a 1-day enrollment, but the district could not provide supporting documents that the student attended. As a result of these errors, the District's ADM was understated by 0.04 for the years audited.

## **The District inaccurately reported some student data**

The District inaccurately reported 2 students' enrollment data to ADE, which resulted in the District's ADM being understated by 0.04.

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

- One student had incorrect enrollment dates reported. As a result, the ADM for the District was understated by 0.05 ADM.
- One student was reported with a 1-day enrollment, but the district could not provide supporting documents that the student attended. As a result, the ADM for the District was overstated by 0.01 ADM.

As shown in Table 2, data reporting errors resulted in an ADM understatement of 0.04 for the three fiscal years audited.

**Table 2**

**Sedona-Oak Creek JUSD #9  
ADM adjustments due to enrollment data errors  
Fiscal years 2017, 2018 and 2019**

|              | <b>Incorrect enrollment dates</b> | <b>Did not attend</b> | <b>Total</b>  |
|--------------|-----------------------------------|-----------------------|---------------|
| 2017         | (0.05)                            | 0.01                  | (0.04)        |
| 2018         | -                                 | -                     | -             |
| 2019         | -                                 | -                     | -             |
| <b>Total</b> | <b>(0.05)</b>                     | <b>0.01</b>           | <b>(0.04)</b> |

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

**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. Additionally, the District must ensure that a process is in place that captures the proper entry 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's ADM was understated by 0.04**

Auditors determined that the District did not report the correct ADM due to inaccurate enrollment data reported to ADE for FY2016, FY2017 and FY2018. Because the District did not receive any basic state aid for the three years audited, there is no financial adjustment necessary. However, 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 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.*

**Recommendation:**

1. The District must reconcile to ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901.
2. The District must adjust their budget capacity as a result of the ADM adjustment.

## **FINDING 2: THE DISTRICT DID NOT ACCURATELY REPORT AOI DATA RESULTING IN AN ADM UNDERSTATEMENT OF 2.59**

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The District did not accurately report enrollment data for 45 of its AOI students to ADE for fiscal years 2017, 2018 and 2019. Specifically, auditors found that 40 students were reported as part time but were full time, five students had been reported with an incorrect FTE status. As a result, the District’s weighted AOI ADM was understated by 2.59.

### **The District inaccurately reported some AOI enrollment data**

Auditors determined that student data for 45 out of 135 of its AOI students was inaccurate, which resulted in the District’s weighted AOI ADM being understated by 2.59 for fiscal years 2017, 2018 and 2019. According to SF-0003 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 District did not always meet these requirements as follows:

- 40 students were incorrectly reported as part time and should have been reported as full time.
- 5 students were reported to ADE with an incorrect FTE status

As shown in Table 3, AOI data reporting errors resulted in a net weighted ADM understatement of 2.59 for fiscal years 2017, 2018 and 2019.

**Table 3**

**Sedona Oak-Creek JUSD #9  
AOI ADM Adjustments  
Fiscal years 2017, 2018 and 2019**

| <b>Adjustments</b> | <b>2017</b> | <b>2018</b>   | <b>2019</b> | <b>Total</b>  |
|--------------------|-------------|---------------|-------------|---------------|
| Full time          | -           | (9.48)        | 0.06        | (9.42)        |
| Part time          | -           | 6.83          | -           | 6.83          |
| <b>Total</b>       | -           | <b>(2.65)</b> | <b>0.06</b> | <b>(2.59)</b> |

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

## **The District must properly reconcile its AOI enrollment data with ADE data**

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 should review its reconciliation practices to ensure that its staff properly review the reports produced by and reconcile them to the District's AOI SMS data to identify any discrepancies that would affect funding and correct any errors identified. The District must comply with the requirement of SF-0003 when calculating and reporting AOI students.

## **The District's ADM was understated by 2.59**

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate AOI student data reported to ADE for the fiscal years audited. Because the District did not receive any basic state aid for the three years audited, there is no financial adjustment necessary. However, 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 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.*

### **Recommendations:**

1. The District must comply with the requirements of SF-0003 when calculating and reporting AOI students.

## **FINDING 3: THE DISTRICT DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE**

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Auditors determined that the District failed to properly maintain residency, birth certificate and immunization 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.

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.

In addition, auditors determined that the District 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 District did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 150 students sampled, 23 of the student files did not have the proper residency documentation, 16 did not have a birth certificate in their file, 17 students did not have immunization record documentation in their file and 21 students did not have residency reaffirmed. Table 4 lists the student file documentation maintained by the District for FY2017, FY2018 and FY2019.

**Table 4**

**Sedona-Oak Creek JUSD #9  
Student Cumulative File Documentation  
Fiscal years 2017, 2018 and 2019**

|              | <b>Total<br/>Sampled</b> | <b>Missing<br/>Residency<br/>Documentation</b> | <b>Missing Birth<br/>Certificate</b> | <b>Missing<br/>Immunization</b> | <b>Residency<br/>affirmation<br/>not done</b> |
|--------------|--------------------------|--|--------------------------------------|---------------------------------|---|
| 2017         | 50                       | 11   | 7                                    | 10                              | 4   |
| 2018         | 50                       | 6  | 4                                    | 3                               | 10  |
| 2019         | 50                       | 6  | 5                                    | 4                               | 7   |
| <b>Total</b> | <b><u>150</u></b>        | <b><u>23</u></b>                               | <b><u>16</u></b>                     | <b><u>17</u></b>                | <b><u>21</u></b>                              |

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, birth certificate documentation and immunization 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, birth certificate and immunization documentation as required by law.



# ADM AND FUNDING ADJUSTMENTS

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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.

**No Basic State Aid adjustment required**— Auditors identified an overall ADM increase of 2.63 for the three fiscal years audited due to improperly reported enrollment data. However, since the District did not receive any basic state aid for any of the three years audited, no financial adjustment is required.

Table 5 lists the ADM budget capacity adjustments for the District for fiscal years 2017, 2018 and 2019.

**Table 5**

**Sedona-Oak Creek JUSD #9  
ADM Budget Capacity adjustments  
FY2017, FY2018 and FY2019**

|                       | <b>FY2017</b> | <b>FY2018</b> | <b>FY2019</b> | <b>Total</b>  |
|-----------------------|---------------|---------------|---------------|---------------|
| Enrollment Data       | (0.04)        | -             | -             | <b>(0.04)</b> |
| AOI Data              | -             | (2.65)        | 0.06          | <b>(2.59)</b> |
| Total ADM Adjustments | (0.04)        | (2.65)        | 0.06          | <b>(2.63)</b> |

Source: Auditor analysis of ADE and District student and financial data for FY2017, FY2018 and FY2019.