



## Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-4036

# Average Daily Membership Audit Report Arizona Education Solutions Fiscal Years 2017, 2018 and 2019

Report Number—20-43

June 25, 2020



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## Arizona Department of Education

Audit Unit

June 25, 2020

Dominick Sirianni, Charter Representative  
Arizona Education Solutions  
2500 S Power Rd, Ste 215  
Mesa, AZ 85209

Dear Charter Representative Sirianni:

The Arizona Department of Education Audit Unit has conducted an audit of the Arizona Education Solutions (School) Average Daily Membership (ADM) for Fiscal Years 2017, 2018 and 2019. 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 AOI data of 41 students, which resulted in its ADM being understated by 2.33. Additionally, auditors determined that the School failed to properly maintain some required documentation in student cumulative files, which resulted in its ADM being overstated by 1.52. In total, the School had an ADM understatement of 0.81. As a result, the School was underfunded by \$9,205.13 which ADE must pay to the School.

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

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Arizona Education Solutions (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) 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.

**School information**—The School, located in Mesa, Arizona, offered instruction in Kindergarten and grades 1 through 12 during the fiscal years audited. The School operated an AOI. Table 1 presents the School’s unaudited student, staffing and financial information for fiscal years 2017, 2018 and 2019.

**Table 1**

**Arizona Education Solutions  
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>	<b>163</b>	<b>136</b>	<b>196</b>
<b>Revenue</b>			
Local	\$ 218	\$ 888	\$ 262
Intermediate	\$ 0	\$ 0	\$ 0
State	\$ 1,096,403	\$ 1,078,670	\$ 1,856,666
Federal	\$ 0	\$ 17,089	\$ 15,956
<b>Total revenues</b>	<b><u>\$ 1,096,621</u></b>	<b><u>\$ 1,096,647</u></b>	<b><u>\$ 1,872,884</u></b>
<b>Total expenditures</b>	<b><u>\$ 1,094,875</u></b>	<b><u>\$ 1,096,440</u></b>	<b><u>\$ 1,872,848</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 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 FY 2017, FY 2018 and FY 2019.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review student data 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:

- **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.
- **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. If a student was not limited appropriately, an adjustment was determined.

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 AOI DATA RESULTING IN AN UNDERPAYMENT OF \$20,702.99**

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The School did not accurately report enrollment data for 41 of its AOI students to ADE for fiscal years 2017, 2018 and 2019. Specifically, auditors found that 14 students had been reported as full time but were part time, 11 students were not appropriately limited, 8 students attended but were not funded, 6 students had been reported as part time but were full time and 2 students were reported to ADE's system with incorrect minutes. As a result, the School's weighted AOI ADM was understated by 2.33. This resulted in the School being underfunded by \$20,702.99 which ADE must pay to the School according to A.R.S. § 15-915.

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

Auditors determined that student data for 41 of its AOI students was inaccurate, which resulted in the School's weighted AOI ADM being understated by 2.33 for fiscal years 2017, 2018 and 2019. According to A.R.S. § 15-808, AOI ADM is based on the number of minutes a student participates in the AOI during the year. In addition, 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 School did not always meet these requirements as follows:

- 14 students were incorrectly reported as full time and should have been reported as part time. As a result, the ADM for the School was overreported by 0.12.
- 11 students were not appropriately limited. As a result, the ADM for the School was overreported by 0.82.
- 8 students attended but were not funded due to integrity failure. As a result, the ADM for the School was underreported by 3.00.
- 6 students were incorrectly reported as part time and should have been reported as full time. As a result, the ADM for the School was underreported by 0.20.
- 2 students were reported to ADE's system with incorrect AOI minutes. As a result, the ADM for the School was overreported by 0.07.

As shown in Table 2, AOI data reporting errors resulted in a net weighted ADM understatement of 2.33 for fiscal years 2017, 2018 and 2019.

**Table 2**

**Arizona Education Solutions  
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	(0.18)	(1.36)	(1.25)	(2.79)
Part time	0.16	0.37	(0.07)	0.46
<b>Total</b>	<b>(0.02)</b>	<b>(0.99)</b>	<b>(1.32)</b>	<b>(2.33)</b>

Source: Auditor analysis of School records and ADE data for fiscal years 2017, 2018 and 2019, A.R.S. § 15-808.

**The School must properly reconcile its enrollment data with ADE data**

The School 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 School should review its reconciliation practices to ensure that its staff properly review the reports produced by and reconcile them to the School’s AOI SMS data to identify any discrepancies that would affect funding and correct any errors identified. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

**The School was underfunded by \$20,702.99**

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate AOI student data reported to ADE for fiscal years 2017, 2018 and 2019. The student data incorrectly reported by the School resulted in its ADM being understated by 2.33. As a result, the School was underfunded by \$20,702.99 in Basic State Aid, which ADE must pay to the School. Table 3 (see page 6) shows the ADM and funding adjustments required for the School for fiscal years 2017, 2018 and 2019.

**Table 3**

**Arizona Education Solutions  
ADM and funding adjustments  
Fiscal years 2017, 2018 and 2019**

	<b>ADM Adjustment</b>	<b>Total</b>
2017	(0.02)	\$(135.41)
2018	(0.99)	\$(8,120.37)
2019	(1.32)	\$(12,447.21)
<b>Total</b>	<b>(2.33)</b>	<b>\$(20,702.99)</b>

Source: Auditor analysis of School records, A.R.S. § 15-808.

**Recommendations:**

1. ADE must pay to the School \$20,702.99 in Basic State Aid for the fiscal year audited for incorrect AOI enrollment data.
2. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

## **FINDING 2: THE SCHOOL DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE RESULTING IN AN OVERPAYMENT OF \$11,497.86**

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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 300 students sampled, 12 of the student files did not have the proper residency documentation, 17 did not have a birth certificate in their file and 12 students did not have immunization record documentation in their file. Table 4 (see page 8) lists the student file documentation maintained by the School for fiscal years 2017, 2018 and 2019.

**Table 4**

**Arizona Education Solutions  
Student cumulative file documentation  
Fiscal years 2017, 2018 and 2019**

	<b>Total sampled</b>	<b>Missing residency documentation</b>	<b>Missing birth certificate</b>	<b>Missing immunization</b>
2017	100	9	11	3
2018	100	2	6	5
2019	100	1	0	4
<b>Total</b>	<b>300</b>	<b>12</b>	<b>17</b>	<b>12</b>

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

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.

**The School was overfunded by \$11,497,86**

Auditors determined that the School did not receive the correct amount of Basic State Aid due to insufficient residency documentation for fiscal years 2017, 2018 and 2019. According to A.R.S. § 15-823 “a school district or a charter school shall not include pupils who are not residents of this state in the district’s or charter school’s student count and shall not obtain state funding for those pupils.” However, for 12 students, the School was unable to provide sufficient evidence that the students were residents of Arizona. The missing proof of residency documentation resulted in its ADM being overstated by 1.52. As a result, the School was overfunded by \$11,497.86 in Basic State Aid, which the School must pay to ADE. Table 5 shows the ADM and funding adjustments required for the School for fiscal years 2017, 2018 and 2019.

**Table 5**

**Arizona Education Solutions  
ADM and funding adjustments  
Fiscal years 2017, 2018 and 2019**

	<b>ADM Adjustment</b>	<b>Total</b>
2017	1.07	\$7,646.92
2018	0.31	\$2,553.25
2019	0.14	\$1,297.69
<b>Total</b>	<b>1.52</b>	<b>\$11,497.86</b>

Source: Auditor analysis of School records, ADE residency guideline.

**Recommendations:**

1. The School must pay to ADE \$11,497.86 in Basic State Aid for the fiscal years audited for insufficient residency documentation.
2. 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

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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.*

**Basic State Aid adjustment of \$9,205.13 required to be paid by ADE**—Auditors identified an overall funding adjustment of \$9,205.13 for the three fiscal years audited due to inaccurate AOI enrollment data and insufficient residency documentation.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal years 2017, 2018 and 2019.

**Table 6**

**Arizona Education Solutions  
ADM and funding adjustments  
Fiscal years 2017, 2018 and 2019**

	2017		2018		2019		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
AOI	(0.02)	\$(135.41)	(0.99)	\$(8,120.37)	(1.32)	\$(12,447.21)	\$(20,702.99)
Residency	1.07	\$7,646.92	0.31	\$2,553.25	0.14	\$1,297.69	\$11,497.86
<b>Total funding adjustment</b>	<b>1.05</b>	<b>\$7,511.51</b>	<b>(0.68)</b>	<b>\$(5,567.12)</b>	<b>(1.18)</b>	<b>\$(11,149.52)</b>	<b>\$(9,205.13)</b>

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