



## 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 Fountain Hills Unified District Fiscal Years 2017, 2018 and 2019

Report Number—21-14

October 29, 2020



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## Arizona Department of Education

Audit Unit

October 29, 2020

Kelly Glass, Superintendent  
Fountain Hills Unified School District  
16000 East Palisades Blvd.  
Fountain Hills, Arizona 85268

Dear Superintendent Glass:

The Arizona Department of Education Audit Unit has conducted an audit of the Fountain Hills 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 determined that the District incorrectly reported the enrollment data of 59 students, which resulted in its ADM being overstated by 12.59. 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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# TABLE OF CONTENTS

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	<u>Page</u>
<b>Introduction and background .....</b>	<b>1</b>
<b>Scope and methodology.....</b>	<b>3</b>
<b>Finding 1: The District did not accurately report some student data, resulting in an overstatement of 12.59 ADM .....</b>	<b>4</b>
The District inaccurately reported some student data.....	4
The District failed to comply with statute and ADE guidelines .....	5
The District's ADM was overstated by 12.59.....	5
Recommendations .....	6
<b>Finding 2: The District did not properly maintain some student records as required by statute and guideline .....</b>	<b>7</b>
The District did not properly maintain student file documentation .....	7
Recommendation .....	8
<b>ADM and adjustments.....</b>	<b>9</b>

# TABLE OF CONTENTS (CONT'D)

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	<u>Page</u>
<b>Tables:</b>	
1 Fountain Hills Unified School District Total students, revenues and expenditures Fiscal years 2017, 2018 and 2019 (Unaudited) .....	2
2 Fountain Hills Unified School District ADM adjustments due to enrollment data errors Fiscal years 2017, 2018 and 2019.....	5
3 Fountain Hills Unified School District Student cumulative file documentation Fiscal years 2017, 2018 and 2019.....	7
4 Fountain Hills Unified School District ADM adjustments Fiscal years 2017, 2018 and 2019.....	9

# 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 Fountain Hills 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 and budget capacity 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 Fountain Hills, Arizona, offered instruction in grades preschool through 12 during the fiscal years audited. They operated an elementary school, a middle school, a high school, and an AOI program. Table 1 presents the District’s unaudited student, staffing and financial information for FY 2017, FY 2018 and FY 2019.

**Table 1**

**Fountain Hills Unified School District  
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>1,509</b>	<b>1,293</b>	<b>1,397</b>
<b>Number of teachers</b>	<b>73</b>	<b>82</b>	<b>83</b>
<b>Revenue</b>			
Local	\$ 11,599,428	\$ 11,244,522	\$ 10,309,142
Intermediate	\$ 0	\$ 0	\$ 608,886
State	\$ 3,141,994	\$ 2,342,422	\$ 3,317,911
Federal	\$ 1,373,518	\$ 892,841	\$ 1,485,329
<b>Total revenues</b>	<b>\$ 16,114,939</b>	<b>\$ 14,479,785</b>	<b>\$ 15,721,269</b>
<b>Total expenditures</b>	<b>\$ 14,189,645</b>	<b>\$ 13,176,691</b>	<b>\$ 12,839,282</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 502 of 4663 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 enrollment dates and full-time enrollment (FTE) 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 fiscal years 2017, 2018 and 2019. 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 had an adjustment, auditors made an adjustment to the special education weight as well.

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 OVERSTATEMENT OF 12.59 ADM**

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Auditors determined that the District inaccurately reported student data for 59 students for fiscal years 2017, 2018 and 2019. Specifically, auditors found that 58 students were reported with incorrect FTE, and one student enrollment did not meet homebound requirements. As a result of these errors, the District's ADM was overreported by 12.59.

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

The District inaccurately reported 59 students' enrollment data to ADE, which resulted in the District's ADM being overstated by 12.59.

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. A.R.S. § 15-901 also states homebound students must have medical certification and must receive at least 4 hours of instruction per week to be considered full-time. However, the District did not always adhere to these requirements. Specifically, for the students that were sampled:

- 58 students had an incorrect FTE reported. As a result, the ADM for the District was overreported by 10.31.
- 1 homebound student did not have the proper medical certification. As a result, the ADM for the District was overreported by 0.71.
- 16 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 1.57.

As shown in Table 2 (see page 5), data reporting errors resulted in an ADM overstatement of 12.59 for the three fiscal years audited.

**Table 2**

**Fountain Hills Unified School District  
ADM adjustments due to enrollment data errors  
Fiscal years 2017, 2018 and 2019**

	<b>Incorrect FTE</b>	<b>Homebound</b>	<b>SPED</b>	<b>Total</b>
2017	2.47	0.71	1.51	4.69
2018	3.55	-	(0.71)	2.84
2019	4.29	-	0.77	5.06
<b>Total</b>	<b>10.31</b>	<b>0.71</b>	<b>1.57</b>	<b>12.59</b>

Source: Auditor analysis of District and ADE records 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 some student enrollment data.

Auditors determined that 58 of the District's students did not meet the statutory and ADE guideline requirements for the full time enrollment (FTE) reported. Auditors analyzed the District's bell schedule and calendar for the District's high schools to determine how many classes or other periods in the day would be required to meet the minimum requirements for full time, or for part time FTE. However, the FTE that was reported for 58 students was not correct based on the courses and annual instructional hours the students were enrolled in. As a result, the District overreported the FTE for 58 students.

The District misreported a student 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 student as being homebound without the proper medical certification.

In the future, the District must ensure it complies with statute and ADE guidelines to properly calculate and report student FTE and ensure statutory homebound reporting requirements are met.

**The District's ADM was overstated by 12.59**

Auditors determined that the District did not report the correct ADM due to 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 12.59. 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 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.*

**Recommendations:**

1. The District must ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.
2. 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.
3. 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.

## **FINDING 2: 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 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.

The District did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 90 students sampled, 19 of the student files did not have the proper residency documentation and 37 of the student files did not have evidence of reaffirmation. Table 3 lists the student file documentation maintained by the District for fiscal years 2017, 2018 and 2019.

**Table 3**

**Fountain Hills Unified School District  
Student cumulative file documentation  
Fiscal years 2017, 2018 and 2019**

	<b>Total sampled</b>	<b>Missing residency documentation</b>	<b>Residency not affirmed</b>
2017	30	12	11
2018	30	3	10
2019	30	4	16
<b>Total</b>	<b>90</b>	<b>19</b>	<b>37</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 documentation as required by law and reaffirm residency annually.

**Recommendation:**

1. The District must comply with statute and collect and maintain in each student's cumulative file copies of verifiable residency documentation as required by law and reaffirm residency annually.

# ADM AND 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 adjustment of 12.59 for the three fiscal years audited due to inaccurate student 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 4 lists the ADM adjustments for the District for fiscal years 2017, 2018 and 2019.

**Table 4**

**Fountain Hills Unified School District  
ADM adjustments  
Fiscal years 2017, 2018 and 2019**

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
ADM adjustment	4.69	2.84	5.06	12.59

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