



## Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

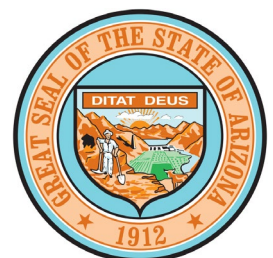
Phoenix, Arizona 85007

602-364-4036

# Average Daily Membership Audit Report Estrella Educational Foundation Fiscal Years 2018, 2019 and 2020

Report Number—21-19

November 24, 2020



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## Arizona Department of Education

Audit Unit

November 24, 2020

Ruben Gutierrez, Chief Operations Officer  
Estrella Educational Foundation  
3900 S 55<sup>th</sup> Ave  
Phoenix, AZ 85043

Dear Mr. Gutierrez:

The Arizona Department of Education Audit Unit has conducted an audit of the Estrella Educational Foundation (School) Average Daily Membership (ADM) for Fiscal Years 2018, 2019 and 2020. 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 had one student with 11 consecutive unexcused absences, which resulted in its ADM being overstated by 0.11. As a result, the School was overfunded by \$849.07 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

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Estrella Educational Foundation (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) 2018 through 2020.

***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 9 through 12 during the fiscal years audited. The School operated one high school. Table 1 presents the School’s unaudited student, staffing and financial information for FY2018, FY2019 and FY2020.

**Table 1**  
**Estrella Educational Foundation**  
**Total students, revenues and expenditures**  
**Fiscal years 2018, 2019 and 2020**  
**(Unaudited)**

	2018	2019	2020
<b>Students enrolled</b>	<b>93</b>	<b>162</b>	-
<b>Number of teachers</b>	<b>4</b>	<b>6</b>	<b>4</b>
<b>Revenue</b>			
Local	\$ 12,233	\$ 29,115	\$ 54,610
Intermediate	\$ 0	\$ 0	\$ 0
State	\$ 840,618	\$ 1,485,119	\$ 1,898,424
Federal	\$ 43,133	\$ 47,610	\$ 63,550
<b>Total revenues</b>	<b><u>\$ 895,984</u></b>	<b><u>\$ 1,561,844</u></b>	<b><u>\$ 2,016,584</u></b>
<b>Total expenditures</b>	<b><u>\$ 868,321</u></b>	<b><u>\$ 1,273,222</u></b>	<b><u>\$ 2,013,016</u></b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2018 and 2019 and the Annual Financial Report for fiscal year 2020.

## 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 FY2018, FY2019 and FY2020.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 150 of 488 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 student enrollment dates and full-time enrollment (FTE). Auditors also reviewed absences to ensure that they were reported correctly. Auditors identified one student with an enrollment adjustment due to excessive consecutive unexcused absences.
- **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 School for FY2018, FY2019 and FY2020. 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 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 \$849.07**

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Auditors determined that the School inaccurately reported the student data for one student for FY2018. Specifically, auditors found that one student had been marked for 11 full consecutive days with an unexcused absence. As a result of the error, the School's ADM was overreported by 0.11 and the School was overfunded by \$849.07 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 one student's enrollment data to ADE, which resulted in the School's ADM being overstated by 0.11.

According to A.R.S. § 15-901, "Average daily membership" means the total enrollment of fractional students and full-time students, minus withdrawals, of each school day through the first one hundred days or two hundred days in session, as applicable, for the current year. Withdrawals include students who are formally withdrawn from schools and students who are absent for ten consecutive school days, except for excused absences identified by the department of education.

However, the School did not withdraw one student after 11 consecutive unexcused absent days. As a result, the ADM for the School was overreported by 0.11.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 0.11 for FY2018.

**Table 2**

**Estrella Educational Foundation  
ADM adjustments due to enrollment data errors  
Fiscal year 2018**

	<b>Students</b>	<b>ADM</b>
2018	1	0.11

Source: Auditor analysis of School and ADE records for fiscal years 2018, 2019 and 2020.

## **The School failed to comply with statute and ADE guidelines**

The School misreported the enrollment data of one student. In the future, the School must ensure it complies with statute and ADE guidelines to properly withdraw students that have 10 or more consecutive unexcused absences.

## **The School was overfunded by \$849.07**

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 FY2018. The student data incorrectly reported by the School resulted in its ADM being overstated by 0.11. As a result, the School was overfunded by \$849.07 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY2018.

**Table 3**

**Estrella Educational Foundation  
ADM and funding adjustments  
Fiscal year 2018**

	<b>ADM Adjustment</b>	<b>Total</b>
2018	0.11	\$849.07

Source: Auditor analysis of School and ADE records for fiscal years 2018, 2019 and 2020.

### **Recommendations:**

1. The School must repay to ADE \$849.07 in Basic State Aid due to incorrectly reported student data.
2. The School must ensure that students that have 10 or more consecutive unexcused absences are appropriately withdrawn pursuant to A.R.S. § 15-901.

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

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Auditors determined that the School failed to properly maintain residency and birth certificate 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.

The School did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 75 students sampled, 14 of the student files did not have the proper residency documentation, 16 of the student files did not have the residency reaffirmed annually and two student files did not have a birth certificate in their file. Table 4 (see page 7) lists the student file documentation maintained by the School for FY2018, FY2019 and FY2020.

**Table 4**  
**Estrella Educational Foundation**  
**Student cumulative file documentation**  
**Fiscal years 2018, 2019 and 2020**

	<b>Total sampled</b>	<b>Missing residency documentation</b>	<b>Residency not reaffirmed</b>	<b>Missing birth certificate</b>
2018	25	5	-	2
2019	25	4	9	-
2020	25	5	7	-
<b>Total</b>	<b>75</b>	<b>14</b>	<b>16</b>	<b>2</b>

Source: Auditor analysis of School records for fiscal years 2018, 2019 and 2020.

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 and birth certificate 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 and birth certificate 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 \$849.07 required to be paid to ADE**—Auditors identified an overall funding adjustment of \$849.07 for the three fiscal years audited due to inaccurate student enrollment data.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2018.

**Table 5**

**Estrella Educational Foundation  
ADM and funding adjustments  
Fiscal year 2018**

	<b>2018</b>
ADM adjustment	0.11
<b>Funding adjustment</b>	<b>\$849.07</b>

Source: Auditor analysis of ADE and School student and financial data for fiscal years 2018, 2019 and 2020.