



Arizona Department of Education

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Average Daily Membership Audit Report Mountain Institute JTED Fiscal Years 2017, 2018 and 2019

Report Number—21-21
December 11, 2020



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Arizona Department of Education

Audit Unit

December 11, 2020

Bill Stiteler, Superintendent
Mountain Institute JTED
3003 Centerpointe East Drive
Prescott, AZ 86301

Dear Superintendent Stiteler:

The Arizona Department of Education Audit Unit has conducted an audit of Mountain Institute JTED (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 enrollment and full-time enrollment (FTE) data in FY 2017, FY 2018 and FY 2019. These findings resulted in the District's ADM being overstated by 24.12. As a result, the District was overfunded by \$78,906.54 which the District must repay to ADE.

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

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of Mountain Institute JTED (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 Prescott, Arizona, is a Career and Technical Education District (CTED) which had five central campuses and 7 satellite campuses. Table 1 presents the District’s unaudited student, staffing and financial information for FY 2017, FY 2018 and FY 2019.

Table 1
Mountain Institute JTED
Total students, revenues and expenditures
Fiscal years 2017, 2018 and 2019
(Unaudited)

	2017	2018	2019
Students Enrolled	65	59	39
Number of Teachers	5.00	3.00	3.00
Revenue			
Local	\$ 778,138	\$ 823,506	\$ 923,165
County	\$ 424,860	\$ 424,726	\$ 424,345
State	\$ 1,416,674	\$ 1,352,508	\$ 1,600,411
Federal	\$ 62,710	\$ 126,577	\$ 104,807
Total Revenues	<u>\$ 2,682,382</u>	<u>\$ 2,727,317</u>	<u>\$ 3,052,728</u>
Total Expenditures	<u>\$ 2,793,089</u>	<u>\$ 2,588,583</u>	<u>\$ 2,603,299</u>

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

SCOPE AND METHODOLOGY

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 450 of 4,235 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:

- **Calendars**—Auditors reviewed the program calendars to determine if the enrollment days reported to ADE were correct. No findings were identified for this area.
- **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.
- **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. When the FTE was incorrect, auditors made an adjustment.
- **Certification**—All teachers were reviewed to determine if they had proper certifications for the course to qualify for state funding. 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 OVERPAYMENT OF \$78,906.54

The District inaccurately reported the student enrollment data for 113 of its students for fiscal years 2017, 2018 and 2019. Specifically, auditors determined that 112 central campus students had an incorrectly reported FTE, and one funded satellite campus student was reported to the ADE's system for funding but did not attend. In total, the District's ADM was overreported by 24.12 for its students for the three fiscal years audited. As a result, the District was overfunded by \$78,906.54 in Basic State Aid for the three fiscal years audited which the District must repay to the ADE pursuant to A.R.S. § 15-915.

The District inaccurately reported some student data

The District inaccurately reported the enrollment data for 113 students to ADE due to various errors, which resulted in the District's ADM being overreported by 24.12. According to A.R.S. § 15-393¹, if a course through a CTED is at least 150 minutes at a centralized campus, then the FTE is 0.75. Otherwise, the FTE for any other courses is 0.25. In addition, 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.

However, the District did not always adhere to the statute and guideline requirements. Specifically:

- 112 students had an incorrect FTE, which resulted in the District's ADM being overstated by 23.88.
- 1 student was reported to ADE's system; however, the student did not attend, which resulted in the District's ADM being overstated by 0.24.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 24.12 for fiscal years 2017, 2018 and 2019.

¹ Notwithstanding any other law, the average daily membership for a pupil who is enrolled in a joint technical education course defined in section 15-391 and who does not meet the criteria specified in subsection P or Q of this section shall be 0.25 for each course, except the sum of the average daily membership shall not exceed the limits prescribed by subsection D, P or Q of this section, as applicable.[...]Notwithstanding any other law, the average daily membership for a pupil in grade ten, eleven or twelve who is enrolled in a course that meets for at least one hundred fifty minutes at a centralized campus shall be 0.75.

Table 2

**Mountain Institute JTED
ADM adjustments due to enrollment data errors
Fiscal years 2017, 2018 and 2019**

	2017	2018	2019	Total
Incorrect FTE	11.15	11.23	1.5	23.88
Did not attend	0	0.24	0	0.24
Total	11.15	11.47	1.5	24.12

Source: Auditor analysis of District records and ADE data 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 FTE, or student enrollment data.

Auditors determined that 112 of the District's central campus students did not have the correct FTE reported. According to A.R.S. § 15-393, student FTE should be reported as 0.25 for courses that met for less than 150 minutes, and 0.75 for courses that met for 150 or more minutes.

Additionally, auditors determined that 1 satellite campus student did not attend. Enrollment is based on the first day of physical attendance or excused absence, and the last day of attendance or excused absence. However, the District did not always report these correctly. In the future, the District must ensure it complies with statute and ADE guidelines to properly calculate and report membership days and review its reconciliation practices to ensure that its staff properly review the reports produced by ADE's data system and reconcile them to the District's SMS data to identify any discrepancies that would affect funding and correct any errors identified.

The District was overfunded by \$78,906.54

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for fiscal years 2017, 2018 and 2019. The enrollment data errors reported by the District resulted in its ADM being overstated by 24.12 for the three fiscal years audited. Due to the change in funding from prior year to current year, there was no adjustment to Basic State Aid paid for the students in fiscal year 2017. As shown in Table 3, due to the overstatement of 24.12 ADM for its enrollment data, the District received an overpayment to Basic State Aid of \$78,906.54 for the three fiscal years audited which the District must repay to the ADE pursuant to A.R.S. § 15-915.

Table 3

**Mountain Institute JTED
ADM and funding adjustments
Fiscal years 2017, 2018 and 2019**

	2017	2018	2019	Total
ADM	11.15	11.47	1.50	24.12
Total funding adjustments	-	\$64,509.39	\$14,397.15	\$78,906.54

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

Recommendations:

1. The District must repay ADE \$78,906.54 in Basic State Aid due to incorrectly reported enrollment data.
2. The District must properly reconcile its data each year to ensure it reports correct enrollment dates and complies with A.R.S. § 15-901 and A.R.S. § 15-393.
3. The District must ensure that it properly calculates and reports students' FTE and calendars pursuant to statute and ADE guidelines.

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 \$78,906.54 required to be paid to ADE—Auditors identified an overall funding adjustment of \$78,906.54 for the three fiscal years audited due to inaccurate student enrollment.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for fiscal years 2017, 2018 and 2019.

Table 4

**Mountain Institute JTED
ADM and funding adjustments
Fiscal years 2017, 2018 and 2019**

	2017	2018	2019	Total
ADM adjustment	11.15	11.47	1.50	24.12
Funding adjustment	-	\$64,509.39	\$14,397.15	\$78,906.54

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