



## Arizona Department of Education

The Audit Unit

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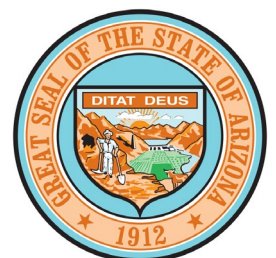
Phoenix, Arizona 85007

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# Average Daily Membership Audit Report Imagine Charter Elementary at Desert West, Inc. Fiscal Years 2018, 2019 and 2020

Report Number—21-42

June 11, 2021



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## Arizona Department of Education

Audit Unit

June 11, 2021

Bill Heintz, Principal  
Imagine Charter Elementary at Desert West, Inc.  
6738 West McDowell Road  
Phoenix, AZ 85035

Dear Mr. Heintz:

The Arizona Department of Education Audit Unit has conducted an audit of the Imagine Charter Elementary at Desert West, Inc. (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 incorrectly reported the enrollment data of four students, which resulted in its ADM being overstated by 0.34. As a result, the School was overfunded by \$2,145.21 which the School must repay to ADE.

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 Imagine Charter Elementary at Desert West, Inc. (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 K through 5 during the fiscal years audited. They operated one elementary school. Table 1 presents the School’s unaudited student, staffing and financial information for FY 2018, FY 2019 and FY 2020.

**Table 1**

**Imagine Charter Elementary at Desert West, Inc.  
Total students, revenues and expenditures  
Fiscal years 2018, 2019 and 2020  
(Unaudited)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Students enrolled</b>	<b>792</b>	<b>874</b>	<b>888</b>
<b>Number of teachers</b>	<b>47</b>	<b>47</b>	<b>33</b>
<b>Revenue</b>			
Local	\$331,881	\$39,919	\$21,414
Intermediate	\$ -	\$ -	\$ -
State	\$5,061,914	\$6,201,464	\$6,272,361
Federal	\$1,276,237	\$1,322,810	\$1,209,604
<b>Total revenues</b>	<b><u>\$6,670,032</u></b>	<b><u>\$7,564,193</u></b>	<b><u>\$7,503,379</u></b>
<b>Total expenditures</b>	<b><u>\$6,577,507</u></b>	<b><u>\$7,111,621</u></b>	<b><u>\$6,738,700</u></b>

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

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 276 of 2,750 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 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.
- **Student Files** – Auditors reviewed student files to ensure that they maintained required documentation such as birth certificates, immunization records, and supporting residency documentation. No findings were identified for this area.
- **Instructional hours** – Auditors reviewed the bell schedules and calendars for the School for FY 2018, FY 2019 and FY 2020. 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 material 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 \$2,145.21**

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Auditors determined that the School inaccurately reported the student data for four students for FY 2018, FY 2019 and FY 2020. Specifically, auditors found that two students incurred 10 or more consecutive unexcused absences and should have been withdrawn, one student incurred a non-fundable interval due to 10 or more consecutive absences, and one student was reported with an incorrect entry date. As a result of these errors, the School's ADM was overreported by 0.34. As a result, the School was overfunded by \$2,145.21 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 four students' enrollment data to ADE, which resulted in the School's ADM being overstated by 0.34.

A.R.S. § 15-901 states that a student with 10 consecutive unexcused absences must be withdrawn. In addition, beginning in FY 2019, School Finance Manual (G) states that students who have reached the 10% threshold for cumulative absences (excused and unexcused) based on the number of instructional calendar days at their school and incur 10 or more consecutive absences will generate non-fundable ADM intervals. Lastly, 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 School did not always adhere to these requirements. Specifically, for the students that were sampled:

- 2 students incurred 10 consecutive unexcused absences and should have been withdrawn. As a result, the ADM for the School was overreported by 0.21.
- 1 student had 10 or more consecutive absences beyond the ten percent threshold, which generated a non-fundable ADM interval. As a result, the ADM for the School was overreported by 0.12.
- 1 student was reported with an incorrect entry date. As a result, the ADM for the School was overreported by 0.01.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 0.34 for the three fiscal years audited.

**Table 2**

**Imagine Charter Elementary at Desert West, Inc.  
ADM adjustments due to enrollment data errors  
Fiscal years 2018, 2019 and 2020**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
10 Day Absences	0.10	0.11	-	0.21
Absences (Section G)	-	-	0.12	0.12
Incorrect Entry Date	0.01	-	-	0.01
<b>Total</b>	<b><u>0.11</u></b>	<b><u>0.11</u></b>	<b><u>0.12</u></b>	<b><u>0.34</u></b>

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

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

The School did not follow statute and ADE guidelines when calculating and reporting student enrollment data.

The School misreported the absences of three students. According to A.R.S. § 15-901, a student with 10 consecutive unexcused absences must be withdrawn. Beginning in FY 2019, School Finance Manual (G) states that students who have reached the 10% threshold for cumulative absences (excused and unexcused) based on the number of instructional calendar days at their school and incur 10 or more consecutive absences will generate non-fundable ADM intervals. The School failed to withdraw two students with 10 consecutive unexcused absences and failed to report a non-fundable interval for one student.

Additionally, the School misreported the enrollment data of one student. According to ARS § 15-901 (A)(2), the first day of membership for continuing or pre-enrolled students shall be defined as either the first day a student physically attends school or the first day that classroom instruction is offered, provided that such students physically attend school within the first ten school days. For all other students, the first day of membership shall be defined as the first day a student physically attends school. The School incorrectly reported the entry date of one student.

In the future, the School must ensure it complies with statute and ADE guidelines to properly report student enrollment.

## The School was overfunded by \$2,145.21

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 FY 2018, FY 2019 and FY 2020. The student data incorrectly reported by the School resulted in its ADM being overstated by 0.34. As a result, the School was overfunded by \$2,145.21 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY 2018, FY 2019 and FY 2020.

**Table 3**

**Imagine Charter Elementary at Desert West, Inc.  
ADM and funding adjustments  
Fiscal years 2018, 2019 and 2020**

	<b>ADM Adjustment</b>	<b>Total</b>
2018	0.11	\$652.26
2019	0.11	\$698.62
2020	0.12	\$794.33
<b>Total</b>	<b>0.34</b>	<b>\$2,145.21</b>

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

### **Recommendations:**

1. The School must repay to ADE \$2,145.21 in Basic State Aid due to incorrectly reported student data.
2. The School must reconcile to ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901.
3. The School should ensure that students with excessive absences are properly withdrawn.

# 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 \$2,145.21 required to be paid to ADE**—Auditors identified an overall funding adjustment of \$2,145.21 for the three fiscal years audited due to inaccurate student enrollment data.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal years 2018, 2019 and 2020.

**Table 4**

**Imagine Charter Elementary at Desert West, Inc.  
ADM and funding adjustments  
Fiscal years 2018, 2019 and 2020**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
ADM adjustment	0.11	0.11	0.12	0.34
<b>Funding adjustment</b>	<b>\$652.26</b>	<b>\$698.62</b>	<b>\$794.33</b>	<b>\$2,145.21</b>

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