



Arizona Department of Education

The Audit Unit

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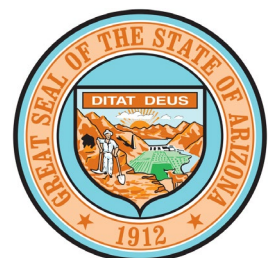
Phoenix, Arizona 85007

602-364-4036

Average Daily Membership Audit Report Desert Star Academy Fiscal Years 2018, 2019 and 2020

Report Number—22-2

July 30, 2021



**CONTACTING
THE AUDIT UNIT**

Angel Santiago, Audit Supervisor

Phone: 602-364-4061

Email: Angel.Santiago@azed.gov

Fax: (602) 364-3264

Mail: 1535 W. Jefferson St., Bin 19
Phoenix, AZ 85007-3209

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1535 W. Jefferson Street, Bin 19
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Arizona Department of Education

Audit Unit

July 30, 2021

Margie Montgomery, Director
Desert Star Academy
5744 Highway 95
Fort Mohave, AZ 86426

Director Montgomery:

The Arizona Department of Education Audit Unit has conducted an audit of the Desert Star Academy (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 one student, which resulted in its ADM being overstated by 0.03. As a result, the School was overfunded by \$216.21 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

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Desert Star Academy (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 Fort Mohave, Arizona, offered instruction in grades K through 8 during the fiscal years audited. They have one charter school. Table 1 presents the School’s unaudited student, staffing and financial information for FY2018, FY2019 and FY2020.

Table 1
Desert Star Academy
Total students, revenues and expenditures
Fiscal years 2018, 2019 and 2020
(Unaudited)

	2018	2019	2020
Students enrolled	397	442	452
Number of teachers	16	26	28
Revenue			
Local	\$89,396	\$ 110,408	\$104,489
Intermediate	\$0	\$0	\$0
State	\$2,779,612	\$3,398,083	\$3,677,849
Federal	\$0	\$286,036	\$312,649
Total revenues	<u>\$2,869,008</u>	<u>\$3,794,527</u>	<u>\$4,094,987</u>
Total expenditures	<u>\$ 2,856,190</u>	<u>\$3,457,276</u>	<u>\$3,970,116</u>

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

SCOPE AND METHODOLOGY

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 1,434 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 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. 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 \$216.21

Auditors determined that the District inaccurately reported the student data for one student for FY 2018, FY 2019, and FY 2020. Specifically, auditors found that one student had an incorrect withdrawal date. As a result of this error, the District's ADM was overreported by 0.03. As a result, the District was overfunded by \$216.21 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the District.

The District inaccurately reported some student data resulting in overfunding of \$216.21

The District inaccurately reported one student enrollment data to ADE, which resulted in the District's ADM being overstated by 0.03.

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 District misreported the enrollment data of one student. The District incorrectly reported one student to ADE that had an incorrect withdrawal date which resulted in an ADM overstatement of 0.03. As a result, as shown in Table 2, the District was overfunded by \$216.21 in Basic State Aid for the three fiscal years audited which the District must repay to ADE pursuant to A.R.S. § 15-915.

Table 2

Desert Star Academy ADM and funding adjustments Fiscal years 2018, 2019 and 2020

	ADM Adjustment	Funding Adjustment
2018	-	\$0.00
2019	-	\$0.00
2020	0.03	\$216.21
Total	0.03	\$216.21

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

Recommendations:

1. The District must repay to ADE \$216.21 in Basic State Aid due to incorrectly reported student data.
2. The District needs to ensure that it follows statute and ADE guidelines when reporting student enrollment data.

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

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. § 15-823 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 one student 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 one student 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 150 students sampled, 10 of the student files did not have the proper residency documentation, 21 of the student files did not have the residency reaffirmed annually, one did not have a birth certificate in their file and one student did not have immunization record documentation in their file. Table 3 (page 8) lists the student file documentation maintained by the School for FY2018, FY2019 and FY2020.

Table 3

**Desert Star Academy
Student cumulative file documentation
Fiscal years 2018, 2019 and 2020**

	Total Sampled	Missing Residency Documentation	Residency not Reaffirmed	Missing Birth Certificate	Missing Immunization
2018	50	7	5	1	1
2019	50	3	10	-	-
2020	50	-	6	-	-
Total	<u>150</u>	<u>10</u>	<u>21</u>	<u>1</u>	<u>1</u>

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, birth certificate documentation and immunization 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, birth certificate and immunization documentation as required by law.

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 \$216.21 required to be paid to ADE—Auditors identified an overall funding adjustment of \$216.21 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 School for fiscal years 2018, 2019 and 2020.

Table 4

**Desert Star Academy
ADM and funding adjustments
Fiscal years 2018, 2019 and 2020**

	2018	2019	2020	Total
ADM adjustment	-	-	0.03	0.03
Funding adjustment	-	-	\$216.21	\$216.21

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