



Arizona Department of Education

The Audit Unit

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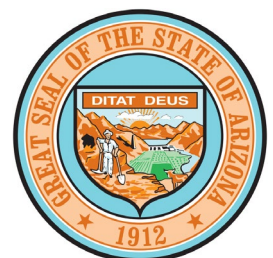
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Average Daily Membership Audit Report Incito Schools Fiscal Years 2018, 2019 and 2020

Report Number—22-16

November 16, 2021



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Arizona Department of Education

Audit Unit

November 16, 2021

Amanda Jelleson, Executive Director
Incito Schools
877 N. Sarival Ave.
Goodyear, AZ 85338

Dear Director Jelleson:

The Arizona Department of Education Audit Unit has conducted an audit of the Incito Schools (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 54 students, which resulted in its ADM being overstated by 2.47. As a result, the School was overfunded by \$17,305.81 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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TABLE OF CONTENTS

	<u>Page</u>
Introduction and background	1
Scope and methodology.....	3
Finding 1: The School did not accurately report some student data, resulting in an overpayment of \$17,305.81.....	4
The School inaccurately reported some student data	4
The School failed to comply with statute and ADE guidelines.....	5
The School was overfunded by \$17,305.81	6
Recommendations	6
Finding 2: The School did not properly maintain some student records as required by statute and guideline.....	7
The School did not properly maintain student file documentation.....	7
Recommendation	8
ADM and funding adjustments	9

TABLE OF CONTENTS (CONT'D)

	<u>Page</u>
Tables:	
1 Incito Schools Total students, revenues and expenditures Fiscal years 2018, 2019 and 2020 (Unaudited)	2
2 Incito Schools ADM adjustments due to enrollment data errors Fiscal years 2018, 2019 and 2020	5
3 Incito Schools ADM and funding adjustments Fiscal years 2018, 2019 and 2020	6
4 Incito Schools Student cumulative file documentation Fiscal years 2018, 2019 and 2020	8
5 Incito Schools ADM and funding adjustments Fiscal years 2018, 2019 and 2020	9

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Incito Schools (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 offered instruction in grades K through 8 during the fiscal years audited. They operated two elementary schools: one in Goodyear and one in Phoenix. Table 1 presents the School’s unaudited student, staffing and financial information for FY2018, FY2019 and FY2020.

Table 1
Incito Schools
Total students, revenues and expenditures
Fiscal years 2018, 2019 and 2020
(Unaudited)

	2018	2019	2020
Students enrolled	371	358	355
Number of teachers	14	24	21
Revenue			
Local	\$329,191	\$386,282	\$346,631
Intermediate	\$ -	\$ -	\$ -
State	\$3,352,846	\$2,993,744	\$2,886,112
Federal	\$72,619	\$56,726	\$334,997
Total revenues	<u>\$3,754,656</u>	<u>\$3,436,752</u>	<u>\$3,567,740</u>
Total expenditures	<u>\$3,483,151</u>	<u>\$3,656,618</u>	<u>\$3,319,870</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2018, FY2019 and FY2020.

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 300 of 1223 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 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 \$17,305.81

Auditors determined that the School inaccurately reported the student data for 54 students for FY2018, FY2019 and FY2020. Specifically, auditors found that 40 students had adjustments due to an incorrectly reported calendar, seven students had not attended the School, five students were reported with incorrect enrollment dates and two students generated non-fundable intervals due to excessive absences. As a result of these errors, the School's ADM was overreported by 2.47. As a result, the School was overfunded by \$17,305.81 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 54 students' enrollment data to ADE, which resulted in the School's ADM being overstated by 2.47.

A.R.S. § 15-901 defines "Average Daily Membership" as "the total enrollment of ... students, minus withdrawals, of each school day through the first one hundred days." School districts and charter schools are responsible for reporting annually to ADE which days are instructional versus non-instructional for each school day. 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. Additionally, A.R.S. § 15-901 states that a student with 10 consecutive unexcused absences must be withdrawn and beginning in FY2019, School Finance Manual (G) states that students who have reached the 10% threshold for cumulative absences (excused or 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. However, the School did not always adhere to these requirements. Specifically, for the students that were sampled:

- 40 students were reported with an incorrect calendar, which resulted in ADM being calculated on the incorrect 100th day. As a result, the ADM for the School was overreported by 0.32.
- 7 students were reported as attended but did not actually attend the School. As a result, the ADM for the School was overreported by 1.05.
- 5 students were reported with incorrect enrollment dates. As a result, the ADM for the School was overreported by 0.88.

- 2 students had excessive absences which resulted in a non-fundable period. As a result, the ADM for the School was overreported by 0.22.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 2.47 for the three fiscal years audited.

Table 2
Incito Schools
ADM adjustments due to enrollment data errors
Fiscal years 2018, 2019 and 2020

	2018	2019	2020	Total
Incorrect Calendar	-	-	0.32	0.32
Did Not Attend	-	-	1.05	1.05
Incorrect Enrollment Dates	0.02	0.01	0.85	0.88
Excessive Absences	-	0.22	-	0.22
Total	<u>0.02</u>	<u>0.23</u>	<u>2.22</u>	<u>2.47</u>

Source: Auditor analysis of School records, ADE data for FY2018, FY2019 and FY2020.

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 enrollment data of 54 students. Auditors determined that the FY2020 calendar for the School was reported incorrectly. The School failed to report any of the breaks or days off, and so the reported 100th day was incorrect. Since ADM is based on the first 100 days of the school year per A.R.S. § 15-901, the ADM for 40 students was calculated based on an incorrect calendar. In addition, according to A.R.S. § 15-901 and ADE guidelines, 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 enrollment dates of five students and seven students were reported to ADE that did not attend.

Additionally, according to School Finance Manual (G), 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. However, the School reported two students with absences that exceeded 10% of the calendar days and then had 10 or more absences in a row. As a result, these periods of time are non-fundable intervals.

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

The School was overfunded by \$17,305.81

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, FY2019 and FY2020. The student data incorrectly reported by the School resulted in its ADM being overstated by 2.47. As a result, the School was overfunded by \$17,305.81 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, FY2019 and FY2020.

Table 3

**Incito Schools
ADM and funding adjustments
Fiscal years 2018, 2019 and 2020**

	ADM Adjustment	Total
2018	0.02	\$133.08
2019	0.23	\$1,663.91
2020	2.22	\$15,508.83
Total	2.47	\$17,305.81

Source: Auditor analysis of School and ADE records for FY2018, FY2019 and FY2020.

Recommendations:

1. The School must repay to ADE \$17,305.81 in Basic State Aid due to incorrectly reported student data.
2. The School must ensure it reports instructional and non-instructional days correctly and reconciles their reported calendar with the calendar implemented at the School.
3. The School must reconcile to ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901.

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 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.

In addition, auditors determined that the School failed to maintain immunization documentation for some students 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 60 students sampled, 12 of the student files did not have the proper residency documentation, seven 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 4 (see page 8) lists the student file documentation maintained by the School for FY2018, FY2019 and FY2020.

Table 4

**Incito Schools
Student Cumulative File Documentation
Fiscal years 2018, 2019 and 2020**

	Total Sampled	Missing Residency Documentation	Residency not Reaffirmed	Missing Birth Certificate	Missing Immunization
2018	20	6	3	-	-
2019	20	3	-	-	-
2020	20	3	4	1	1
Total	<u>60</u>	<u>12</u>	<u>7</u>	<u>1</u>	<u>1</u>

Source: Auditor analysis of School records for FY2018, FY2019 and FY2020.

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, reaffirmation, 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 \$17,305.81 required to be paid to ADE—Auditors identified an overall funding adjustment of \$17,305.81 for the three fiscal years audited due to inaccurate student enrollment.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal years 2018, 2019 and 2020.

Table 5

**Incito Schools
ADM and funding adjustments
Fiscal years 2018, 2019 and 2020**

	2018	2019	2020	Total
ADM adjustment	0.02	0.23	2.22	2.47
Funding adjustment	\$133.08	\$1,663.91	\$15,508.83	\$17,305.81

Source: Auditor analysis of ADE and School student and financial data for FY2018, FY2019 and FY2020.