



Arizona Department of Education

The Audit Unit

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Phoenix, Arizona 85007

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Average Daily Membership Audit Report Litchfield Elementary School District Fiscal Years 2018, 2019 and 2020

Report Number—22-17

November 4, 2021



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Arizona Department of Education

Audit Unit

November 4, 2021

Jodi Gunning, Superintendent
Litchfield Elementary School District
272 East Sagebrush Street
Litchfield Park, AZ 85340

Dear Superintendent Gunning:

The Arizona Department of Education Audit Unit has conducted an audit of the Litchfield Elementary School District (District) Average Daily Membership (ADM) for Fiscal Years 2018, 2019 and 2020. 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 the enrollment data of 81 students, which resulted in its ADM being overstated by 17.61. As a result, the District was overfunded by \$72,742.48 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 the Litchfield Elementary School District (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) 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.

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 Litchfield Park, Arizona, offered instruction in grades Preschool through 8 during the fiscal years audited. They operated 14 elementary schools and one middle school. Table 1 presents the District’s unaudited student, staffing and financial information for FY2018, FY2019 and FY2020.

Table 1

**Litchfield Elementary School District
Total students, revenues and expenditures
Fiscal years 2018, 2019 and 2020
(Unaudited)**

	2018	2019	2020
Students Enrolled	10,630	11,566	11,828
Number of Teachers	514	519	554
Revenue			
Local	\$28,819,107	\$34,504,009	\$34,619,691
Intermediate	\$4,269,569	\$4,349,427	\$4,477,059
State	\$46,729,424	\$53,616,369	\$57,427,599
Federal	\$6,718,258	\$6,489,246	\$6,785,925
Total Revenues	<u>\$86,536,358</u>	<u>\$98,959,051</u>	<u>\$103,310,274</u>
Total Expenditures	<u>\$83,693,732</u>	<u>\$109,617,842</u>	<u>\$99,975,214</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 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 FY2018, FY2019 and FY2020.

To conduct this audit, auditors used a variety of methods, including examining District and ADE records to review 3,000 of 36,071 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:

- **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.
- **Student Files** – Auditors reviewed student files to ensure that they maintained required documentation such as birth certificates, immunization records, and supporting residency documentation. No material findings were identified for this area.
- **Instructional hours** – Auditors reviewed the bell schedules and calendars for the District 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. When students with a special education category also had an adjustment, auditors made an adjustment to the special education weight as well.

- **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 \$72,742.48

Auditors determined that the District inaccurately reported the student data for 81 students for FY2018, FY2019 and FY2020. Specifically, auditors found that 62 students were reported with an incorrect 100th day, 10 students did not receive sufficient homebound instruction or did not have medical certification, two students had not attended the District, two students had excessive absences, two funded preschool students were not eligible for funding, one funded student was private paid by the parent, one student had an incorrectly reported FTE, and one student had an incorrect entry or exit date. As a result of these errors, the District's ADM was overreported by 17.61. As a result, the District was overfunded by \$72,742.48 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

The District inaccurately reported 81 students' enrollment data to ADE, which resulted in the District's ADM being overstated by 17.61.

A.R.S. § 15-901 states homebound students must have medical certification and must receive at least 4 hours of instruction per week to be considered full-time.

In addition, according to ADE External Guideline and Procedures GE-17 and A.R.S. § 15-901, except for 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. A.R.S. §15-901 (A)(2) also states that students absent for ten (10) consecutive school days, except for excused absences, shall be withdrawn from the school. In addition, beginning in FY2019 "ADE School Finance Manual G. Defining Excused Absences" went into effect, which required that students who have reached the 10% threshold for cumulative absences (excused or unexcused) based on the number of instructional days, may generate non-fundable ADM intervals.

A.R.S. § 15-901 also states, for common schools, a part-time student is a student enrolled for less than the total time for a full-time student as defined in this section. A part-time common school student shall be counted as one-fourth, one-half or three-fourths of a full-time student if the student is enrolled in an instructional program that is at least one-fourth, one-half or three-fourths of the time a full-time student is enrolled. The hours in which a student is scheduled to attend a common school during the regular school day shall be included in the calculation of the average daily membership for that student. Furthermore, the District's calendars are used to calculate the first 100 days of membership of student enrollment, so they must be reported correctly.

However, the District did not always adhere to these requirements. Specifically, for the students that were sampled:

- 62 preschool students were reported with an incorrect 100th day. As a result, the ADM for the District was underreported by 1.87.
- 10 students did not receive sufficient homebound instruction or did not have medical certification. As a result, the ADM for the District was overreported by 5.11.
- 2 students were reported and funded for attending but did not actually attend the District. As a result, the ADM for the District was overreported by 1.00.
- 2 students had over ten consecutive absences beyond the ten percent threshold, which generated a non-fundable ADM interval. As a result, the ADM for the District was overreported by 0.94.
- 2 preschool students were reported and funded; however, they were not eligible for funding. As a result, the ADM for the District was overreported by 0.27.
- 1 sixth grade student was reported and funded but was private placed and should have been reported as nonfundable. As a result, the ADM for the District was overreported by 1.00.
- 1 student was reported with an incorrect FTE. As a result, the ADM for the District was underreported by 0.08.
- 1 student had an incorrect exit date. As a result, the ADM for the District was overreported by 0.01.
- 59 of the students that had data reported incorrectly were also funded with a SPED category. As a result, the weighted SPED ADM for the District was overreported by 11.23

As shown in Table 2 (page 7), data reporting errors resulted in an ADM overstatement of 17.61 for the three fiscal years audited.

Table 2

**Litchfield Elementary School District
ADM adjustments due to enrollment data errors
Fiscal years 2018, 2019 and 2020**

	2018	2019	2020	Total
Incorrect Calendar	(0.80)	(0.98)	(0.09)	(1.87)
Homebound	1.00	2.30	1.81	5.11
Did not attend	1.00	-	-	1.00
Excessive Absences	-	0.58	0.36	0.94
PS Eligibility	0.27	-	-	0.27
Nonfundable-Private Placed	-	1.00	-	1.00
Incorrect FTE	(0.08)	-	-	(0.08)
Incorrect exit date	-	0.01	-	0.01
Weighted SPED	4.75	6.17	0.31	11.23
Total	6.14	9.08	2.39	17.61

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

The District failed to comply with statute and ADE guidelines

The District did not follow statute and ADE guidelines when calculating and reporting student FTE or student enrollment data.

The calendar for the preschool program was reported incorrectly for 62 students. ADM is based on the first 100 days of the school year. However, the preschool program was reported as a five-day program instead of the three days per week that it was in session. As a result, the 100th day calculated by ADE was incorrect. In addition, the preschool program reported funding for two students who were not eligible.

The District also misreported 10 students as being homebound. According to ARS § 15-901, a homebound student must be certified by a medical doctor as being unable to attend regular classes for a period of not less than three school months during a school year. A homebound student can be counted as in attendance for each day in a week where at least four hours of instruction were provided. However, the District incorrectly reported the 10 students as being homebound without the proper certification or did not provide at least four hours of instruction for 10 students.

Additionally, the District misreported the enrollment data of 6 students. 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. In addition, according to ARS § 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. Further, the effective date of withdrawals shall be retroactive to the last day of actual attendance of the student or excused absence and a student with 10 consecutive unexcused absences must be withdrawn.

However, the district 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 addition, the District incorrectly reported two students to ADE that did not attend, reported one student that was private paid by the parent, and incorrectly reported the exit date of one student.

Finally, the District misreported the FTE for one student. A.R.S. § 15-901 also states, for common schools, a part-time student is a student enrolled for less than the total time for a full-time student as defined in this section. A part-time common school student shall be counted as one-fourth, one-half or three-fourths of a full-time student if the student is enrolled in an instructional program that is at least one-fourth, one-half or three-fourths of the time a full-time student is enrolled. The hours in which a student is scheduled to attend a common school during the regular school day shall be included in the calculation of the average daily membership for that student

In the future, the District must ensure it complies with statute and ADE guidelines to properly report FTE, student enrollments and homebound students.

The District was overfunded by \$72,742.48

Auditors determined that the District 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 District resulted in its ADM being overstated by 17.61. As a result, the District was overfunded by \$72,742.48 in Basic State Aid for the three fiscal years audited which ADE must recoup from the District pursuant to A.R.S. § 15-915, as shown in Table 3.

Table 3

**Litchfield Elementary School District
ADM and funding adjustments
Fiscal years 2018, 2019 and 2020**

	ADM Adjustment	Total
2018	6.14	\$23,677.38
2019	9.08	\$37,525.56
2020	2.39	\$11,539.54
Total	17.61	\$72,742.48

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

Recommendations:

1. The District must repay to ADE \$72,742.48 in Basic State Aid due to incorrectly reported student data.
2. The District needs to ensure that the preschool program calendar is reported to ADE so that the 100th day is properly calculated.
3. The District must collect required medical certification documentation and provide education services to homebound student for a minimum of four hours per week for students certified as Homebound pursuant to A.R.S. § 15-901.
4. The District must reconcile to ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901.
5. The District needs to ensure that it properly reports students' FTE 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.

Budget capacity adjustment required—The District must adjust its budget capacity for the three fiscal years audited. Budget capacity adjustment calculations for the District will be made by ADE once the audit is finalized.

Basic State Aid adjustment of \$72,742.48 required to be paid to ADE—Auditors identified an overall funding adjustment of \$72,742.48 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 FY2018, FY2019 and FY2020.

Table 4

**Litchfield Elementary School District
ADM and funding adjustments
Fiscal years 2018, 2019 and 2020**

	2018	2019	2020	Total
ADM adjustment	6.14	9.08	2.39	17.61
Funding adjustment	\$23,677.38	\$37,525.56	\$11,539.54	\$72,742.48

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