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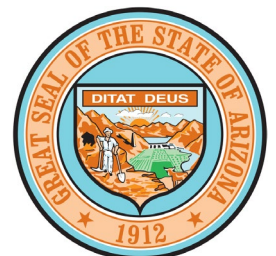
Phoenix, Arizona 85007

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Average Daily Membership Audit Report Nosotros, Inc. Fiscal Years 2019, 2020 and 2021

Report Number—22-44

June 30, 2022



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Arizona Department of Education

Audit Unit

June 30, 2022

Paul Felix, Superintendent
Nosotros, Inc.
440 N Grande Ave
Tucson, AZ 85745

Dear Superintendent Felix:

The Arizona Department of Education Audit Unit has conducted an audit of the Nosotros, Inc. (School) Average Daily Membership (ADM) for Fiscal Years 2019, 2020 and 2021. 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 64 students, which resulted in its ADM being overstated by 14.22. Furthermore, the School did not report an accurate percentage of distance learning that took place in fiscal year 2021. As a result, the School was overfunded by \$108,231.05 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 Nosotros, 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) 2019 through 2021.

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 Tucson, Arizona, offered instruction in grades Kindergarten through 12 during the fiscal years audited. The School operated one K-12 school. Table 1 presents the School’s unaudited student, staffing and financial information for FY2019, FY2020 and FY2021.

Table 1

**Nosotros, Inc.
Total students, revenues and expenditures
Fiscal Years 2019, 2020 and 2021
(Unaudited)**

	2019	2020	2021
Students enrolled	274	271	227
Number of teachers	18	16	15
Revenue			
Local	\$ 23,246	\$ 18,998	\$ 15,118
Intermediate	\$ 0	\$ 0	\$ 0
State	\$ 2,325,339	\$ 2,360,727	\$ 2,106,145
Federal	\$ 389,620	\$ 377,254	\$ 854,565
Total revenues	\$ 2,738,205	\$ 2,756,979	\$ 2,975,828
Total expenditures	\$ 2,497,270	\$ 2,479,650	\$ 2,503,807

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2019, FY2020 and FY2021.

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 FY2019, FY2020 and FY2021.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 166 of 990 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.
- **FTE calculations** – Auditors reviewed the bell schedules and student schedules to determine whether the School 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 School, 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. 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 FY2019, FY2020 and FY2021. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited.
- **Distance Learning Plans** – Auditors reviewed the Distance Learning Plans (DLP) for FY2021 that were used to provide education to students. In addition, auditors reviewed the percentage of learning that was distance learning or in person to determine if this was reported correctly. When the data reported to ADE was incorrect, an adjustment was determined.

- ***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 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 \$114,865.04

Auditors determined that the School inaccurately reported the student data for 64 students for FY2019, FY2020 and FY2021. Specifically, auditors found that 39 students had incorrectly reported FTE, 22 students had 10 or more consecutive unexcused absences, two students had excessive absences, and one student attended but was not funded. In addition, nine of these students that had data reported incorrectly were also funded with a SPED category. As a result of these errors, the School's ADM was overreported by 14.22 and the School was overfunded by \$114,865.04 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 64 student's enrollment data to ADE, which resulted in the School's ADM being overstated by 14.22.

According to A.R.S. § 15-901, for a high school student to be reported as a 1.0 FTE, the student must be enrolled in at least four subjects which meet at least 123 hours annually each and total at least 720 instructional hours for the year. A student who does not meet these requirements is considered a part-time student and their FTE status must be reduced based on the number of actual instructional hours provided and subjects enrolled.¹ In addition, 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. Finally, 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:

¹ Pursuant to A.R.S. § 15-901, a full time student (1.0 FTE) in grades 9 through 12 must be scheduled for and attending at least 720 hours of instruction and at least four subjects each of which meets for at least 123 hours annually; a 0.75 FTE student must be scheduled for at least 540 hours of instruction and at least three subjects each of which meets for at least 123 hours annually, a 0.50 FTE student must be scheduled for at least 360 hours of instruction and at least two subjects each of which meets for at least 123 hours annually and a 0.25 FTE student must be scheduled for at least 180 hours of instruction and at least one subject which meets for at least 123 hours annually.

- 39 students had an incorrect FTE reported. As a result, the ADM for the School was overreported by 8.64.
- 22 students had 10 consecutive unexcused absences and should have been withdrawn. As a result, the ADM for the School was overreported by 4.90.
- 2 students had excessive absences which resulted in a non-fundable period. As a result, the ADM for the School was overreported by 0.37.
- 1 student attended the School, but was not reported and funded as being enrolled in the School. As a result, the ADM for the School was underreported by 0.40.
- 9 of the students that had data reported incorrectly were also funded with a SPED category. As a result, the weighted SPED ADM for the School was overreported by 0.71.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 14.22 for FY2019, FY2020 and FY2021.

Table 2

**Nosotros, Inc.
ADM adjustments due to enrollment data errors
Fiscal Years 2019, 2020 and 2021**

	2019	2020	2021	Total
Incorrect FTE	4.19	2.75	1.70	8.64
10 day absence	1.68	2.64	0.58	4.90
Excessive absences	0.37	-	-	0.37
Attended	-	(0.40)	-	(0.40)
SPED	0.00	0.71	0.00	0.71
Total	6.24	5.70	2.28	14.22

Source: Auditor analysis of School records, ADE data for FY2019, FY2020 and FY2021.

The School failed to comply with statute and ADE guidelines

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

Auditors determined that 39 of the School's students did not meet the statutory and ADE guideline requirements for full time enrollment (FTE). According to A.R.S. § 15-901, for a high school student to be reported as a 1.0 FTE, the student must be enrolled in at least four subjects which meet at least 123 hours annually each and total at least 720 instructional hours for the year. However, the FTE that was reported for some students was not correct

based on the number of subjects or annual instructional hours the students were enrolled in. As a result, the School overreported the FTE for 39 students.

Additionally, the School misreported the enrollment data of 25 students. 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. ARS § 15-901 also states that the effective date of a student’s withdrawal shall be retroactive to the last day of actual attendance of the student or excused absence.” Furthermore, A.R.S. § 15- 901 states that a student with 10 consecutive unexcused absences must be withdrawn and 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, 22 students had 10 or more consecutive unexcused absences, two students had excessive absences and generated a non-fundable interval, and one student attended but was not funded.

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

The School was overfunded by \$114,865.04

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 FY2019, FY2020 and FY2021. The student data incorrectly reported by the School resulted in its ADM being overstated by 14.22. As a result, the School was overfunded by \$114,865.04 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY2019, FY2020 and FY2021.

Table 3

**Nosotros, Inc.
ADM and funding adjustments
Fiscal Years 2019, 2020 and 2021**

	ADM adjustment	Total
2019	6.24	\$49,717.33
2020	5.70	\$44,938.90
2021	2.28	\$20,208.81
Total	14.22	\$114,865.04

Source: Auditor analysis of School and ADE records for FY2019, FY2020 and FY2021.

The School failed to properly maintain course records

Auditors found that the School failed to maintain sufficient documentation to support the data submitted to ADE for funding purposes as required by both statute and ADE guidance. The Arizona State Library, Archives and Public Records requires that school records be maintained for four fiscal years. The School failed to properly document and retain records that show the courses enrolled and course enrollment dates for some students. As a result, the School failed to maintain sufficient course documentation as required by the Arizona State Library, Archives and Public Records.

In the future, the School should properly document and track all courses the students are enrolled in and the dates the courses are enrolled.

Recommendations:

1. The School must repay to ADE \$114,865.04 in Basic State Aid due to incorrectly reported student data.
2. The School must ensure that it properly reports students' FTE pursuant to statute and ADE guidelines.
3. The School must ensure that students are properly withdrawn pursuant to statute and ADE guidelines.
4. The School must reconcile to ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901.
5. The School must ensure that it properly documents student course enrollments and retains this documentation according to record retention policies.

FINDING 2: THE PERCENTAGE OF DISTANCE LEARNING REPORTED FOR FY2021 WAS INACCURATE

Auditors determined that the School did not report an accurate percentage of distance learning that took place in FY2021. As a result, the School was underpaid \$6,633.99 in Basic State Aid. Pursuant to A.R.S. § 15-915, ADE needs to recover these monies from the School, and in the future the School should ensure that it accurately reports data to ADE.

The School failed to report an accurate percentage of distance learning

Due to Executive Order 2020-44 in FY2021, education could be provided to students in a distance learning setting, with the funding being provided during this time similar to an AOI. To apply this funding, a financial adjustment was made to each school district and charter school for this year. The financial adjustment was applied based on the percentage of total instructional time the students participated in distance learning for the year reported by the School. The financial adjustment was a reduction to Base Support Level funding made in the amount of 5% for full-time students and 15% for part-time students.

The percentage of distance learning reported by the School for FY2021 was incorrect. The School reported to ADE that 100% of the total instructional time the students participated in was distance learning. However, the School had calculated that the students actually participated in distance learning for approximately 92% of the time.

As a result of reporting an inaccurate percentage of distance learning during FY2021, the School was underpaid Basic State Aid. In total, the School was underfunded by \$6,633.99 in Basic State Aid as shown in Table 4.

Table 4

**Nosotros, Inc.
Funding overstatement due to inaccurate percentage
of distance learning reported
Fiscal year 2021**

	2021
Total weighted non-AOI ADM	349.41
Base amount	4,305.73
Percentage distance learning	92.17%
Audited reduction amount	\$69,332.65
Actual reduction made	\$75,966.64
Total financial adjustment	\$(6,633.99)

Source: Auditor analysis of ADE and School student data for fiscal year 2021.

Recommendations:

1. The ADE must pay to the School \$6,633.99 in Basic State Aid due to incorrectly reported distance learning percentage.
2. The School should review data for students in the future to ensure that it is reported accurately.

FINDING 3: 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, the student file must contain a photocopy of the student's birth certificate, other reliable proof of the student's identity and age and affidavit explaining the inability to provide a birth certificate, or a letter from an authorized agency with custody of the student.

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 75 students sampled, 19 of the student files did not have the proper residency documentation, one of the student files did not have the residency reaffirmed annually, six did not have a birth certificate in their file and four students did not have immunization record documentation in their file. Table 5 (see page 12) lists the student file documentation maintained by the School for FY2019, FY2020 and FY2021.

Table 5

**Nosotros, Inc.
Student cumulative file documentation
Fiscal years 2019, 2020 and 2021**

	Total sampled	Missing residency documentation	Residency not reaffirmed	Missing birth certificate	Missing immunization
2019	25	8	0	4	2
2020	25	6	1	1	2
2021	25	5	0	1	0
Total	75	19	1	6	4

Source: Auditor analysis of School records for FY2019, FY2020 and FY2021.

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 \$108,231.05 required to be paid to ADE—Auditors identified an overall funding adjustment of \$108,231.05 for the three fiscal years audited due to inaccurate student enrollment and an inaccurate distance learning percentage reported.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2019, FY2020 and FY2021.

Table 6

**Nosotros, Inc.
ADM and funding adjustments
Fiscal years 2019, 2020 and 2021**

	2019		2020		2021		Total	
	ADM	Funding	ADM	Funding	ADM	Funding	ADM	Funding
Inaccurate enrollment data	6.24	\$49,717.33	5.70	\$44,938.90	2.28	\$20,208.81	14.22	\$114,865.04
Inaccurate distance learning percentage	-	-	-	-	-	\$(6,633.99)	-	\$(6,633.99)
Total funding adjustment	6.24	\$49,717.33	5.70	\$44,938.90	2.28	\$13,574.82	14.22	\$108,231.05

Source: Auditor analysis of ADE and School student and financial data for FY2019, FY2020 and FY2021.