



## Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

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# Average Daily Membership Audit Report STEP UP Schools, Inc. Fiscal Years 2019, 2020 and 2021

Report Number—23-3

August 3, 2022



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## Arizona Department of Education

### Audit Unit

August 3, 2022

Diane Fernichio, Dean of Schools  
STEP UP Schools, Inc.  
44 E 5<sup>th</sup> St.  
Mesa, AZ 85201

Dear Dean of Students Fernichio:

The Arizona Department of Education Audit Unit has conducted an audit of the STEP UP Schools, 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 failed to properly maintain some required documentation in student cumulative files. In addition, no discrepancies were identified for the ADM funding areas examined, and no adjustments to Basic State Aid are required.

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

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	<u>Page</u>
<b>Introduction and background .....</b>	<b>1</b>
<b>Scope and methodology.....</b>	<b>3</b>
<b>Finding 1: The School did not properly maintain some student records as required by statute and guideline.....</b>	<b>5</b>
The School did not properly maintain student file documentation.....	5
Recommendations .....	6

# TABLE OF CONTENTS (CONT'D)

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	<u>Page</u>
<b>Tables:</b>	
1 STEP UP Schools, Inc. Total students, revenues, and expenditures Fiscal years 2019, 2020 and 2021 (Unaudited) .....	2
2 STEP UP Schools, Inc. Student cumulative file documentation Fiscal years 2019, 2020 and 2021 .....	6

# 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 STEP-UP Schools, 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 those 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 Mesa, Arizona, offered instruction in grades kindergarten through 6<sup>th</sup> grade during the fiscal years audited. They had one school. Table 1 presents the School’s unaudited student, staffing, and financial information for FY2019, FY2020 and FY2021.

**Table 1**

**STEP UP Schools, Inc.  
Total students, revenues, and expenditures  
Fiscal years 2019, 2020 and 2021  
(Unaudited)**

	2019	2020	2021
<b>Students enrolled</b>	<b>57</b>	<b>52</b>	<b>45</b>
<b>Number of teachers</b>	<b>5</b>	<b>4</b>	<b>3.50</b>
<b>Revenue</b>			
Local	\$72,414	\$76,700	\$74,096
Intermediate	\$0	\$0	\$0
State	\$486,540	\$384,787	\$402,178
Federal	\$131,422	\$145,865	\$253,642
<b>Total revenues</b>	<b>\$690,376</b>	<b>\$607,352</b>	<b>\$729,916</b>
<b>Total expenditures</b>	<b><u>\$824,721</u></b>	<b><u>\$776,948</u></b>	<b><u>\$779,400</u></b>

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

## 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 FY2019, FY2020 and FY2021.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 150 of 195 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. No Findings were identified for this area.
- **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. No Findings were identified for this area.
- **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** – The School offered in-person learning during the entire FY21 school year, so they did not need a distance learning plan. Auditors reviewed the percentage of learning that was distance learning or in person to determine if this was reported correctly. No findings were identified for this area.



- ***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 PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE**

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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, three of the student files did not have the proper residency documentation, seven of the student files did not have the residency reaffirmed annually, four did not have a birth certificate in their file and three students did not have immunization record documentation in their file. Table 2 on page 6, lists the student file documentation maintained by the School for FY2019, FY2020 and FY2021.

**Table 2**

**STEP UP Schools, Inc.  
Student cumulative file documentation  
Fiscal years 2019, 2020 and 2021**

	<b>Total Sampled</b>	<b>Missing Residency Documentation</b>	<b>Residency not Reaffirmed</b>	<b>Missing Birth Certificate</b>	<b>Missing Immunization</b>
2019	25	3	3	0	0
2020	25	0	2	1	1
2021	25	0	2	3	2
<b>Total</b>	<b><u>75</u></b>	<b><u>3</u></b>	<b><u>7</u></b>	<b><u>4</u></b>	<b><u>3</u></b>

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.