



Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-2097

Average Daily Membership Audit Report Scottsdale Horizons Charter School Fiscal Years 2009 and 2010

Report Number—11-1

March 15, 2011

**CONTACTING
THE AUDIT UNIT**

Arthur E. Heikkila, Chief Auditor

Phone: (602) 364-2097
Email: Arthur.Heikkila@azed.gov
Fax: (602) 542-4056
Mail: 1535 W. Jefferson St., Bin 19
Phoenix, AZ 85007-3209

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Arizona Department of Education—The Audit Unit
Attn: Linda Norgren
1535 W. Jefferson Street, Bin 19
Phoenix, AZ 85007-3209



State of Arizona
Department of Education
The Audit Unit

ADE-Audit Unit - Bin 19
Phone (602) 364-2097
Fax (602) 542-4056

March 15, 2011

Ms. Marcia Lee
Scottsdale Horizons Charter School
PO Box 2208
Peoria, AZ 85380

Dear Marcia Lee:

The Arizona Department of Education Audit Unit has conducted an audit of the Scottsdale Horizons Charter School's Average Daily Membership for Fiscal Years 2009 and 2010. The purpose of the audit was to address whether the School properly reported student enrollment and attendance, offered students sufficient statutorily-mandated instruction hours and determined if it received the correct amount of Basic State Aid.

The audit found that the School did not accurately report some enrollment and attendance to ADE, and did not provide sufficient instructional hours. As a result of these practices, the School was overpaid about \$20,000 in Basic State Aid.

The audit becomes final 30 days after issuance, unless the School files an appeal. Appendix A in the report provides rules governing the appeal process.

We appreciate the excellent cooperation and assistance provided by the School's administration and staff during the course of the audit. My staff will be pleased to discuss or clarify items in the report.

Sincerely,

Arthur E. Heikkila
Chief Auditor

Table of Contents

	<u>Page</u>
Introduction and Background.....	1
Scope and Methodology.....	3
Finding 1: The School Did Not Accurately Report Some Enrollment and Attendance to ADE	4
Student Enrollment and Withdrawal Data Errors Identified	4
The School Failed to Report Some Absences Accurately	6
The School Was Overpaid \$12,143.10 For the Two Fiscal Years Audited.....	6
Recommendations	7
Finding 2: The School Was Overpaid More Than \$9,000 As A Result Of Not Providing Enough Instructional Hours	8
7th and 8th Grade Students Were Not Provided the Statutorily-Required Minimum Instructional Hours	8
School Limited Educational Opportunities for Some Students	9
The School was Overpaid \$9,197.98 in Basic State Aid Funding.....	9
Recommendations	10
ADM Funding Adjustments	11
Appendix A	a-i

Table of Contents (Cont'd)

		<u>Page</u>
Tables:		
1	Scottsdale Horizons Charter School Students, Staffing, Revenues and Expenditures FY2009 and FY2010 (Unaudited).....	2
2	Scottsdale Horizons Charter School ADM Adjustments Due to Enrollment and Withdrawal Errors FY2009 and FY2010	5
3	Scottsdale Horizons Charter School ADA and ADM Adjustments Due to Attendance Errors FY2009 and FY2010	6
4	Scottsdale Horizons Charter School ADM and Funding Adjustments Due to Enrollment and Attendance Errors FY2009 and FY2010	7
5	Scottsdale Horizons Charter School Instructional Hours Required, Provided and Percentage Provided for 7 th and 8 th Grade FY2009 and FY2010	8
6	Scottsdale Horizons Charter School ADM Overstatement and Funding Adjustment Due to Insufficient Instructional Hours for 7 th and 8 th Grade FY2009 and FY2010	9
7	Scottsdale Horizons Charter School ADM and Funding Adjustments Required for FY2009 and FY2010	11

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) has conducted an Average Daily Membership (ADM) audit of Scottsdale Horizons Charter School (the School), pursuant to the provisions of A.R.S. §§ 15-183(E)(6) and 15-239. This audit focused on whether the School accurately reported enrollment and attendance data to ADE and whether sufficient instructional hours were reported for FY2009 and FY2010.

Average Daily Membership audit conducted—ADM audits help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. Schools receive Basic State Aid based on several factors related to student attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE's Student Accountability Information System (SAIS). ADE then processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

Audit and appeal processes—The ADM audit process determines whether payments were correct or if an adjustment is needed pursuant to A.R.S. § 15-915, and provides for an appeal process if the school district or charter school disagrees with the audit findings. ADM audits compare the school district's or charter school's information reported to SAIS to information found on the original records kept at the school. If the audit finds that the school district's or charter school's reported information does not match the original documentation, the audit will identify and report the funding adjustment needed to Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings.

The audit is an appealable action. A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the audit findings the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school and ADE may reach agreement in an informal settlement conference. If not, the appeal will be adjudicated by the Office of Administrative Hearings. When the audit is finally settled or adjudicated, if ADE has determined that a school district or charter school received excess 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 of Public Instruction allow a correction to be made partly in the current budget year and partly in the following budget year.

School financial and other information—The School has two locations in the Phoenix area and offers education ranging from kindergarten programs to the 8th grade. In FY2010, the School had a total of 144 students enrolled at its schools. Table 1 (see page 2) presents the School's student, staffing and financial information for FY2009 and FY2010.

Table 1
Scottsdale Horizons Charter School
Students, Staffing, Revenues and Expenditures
FY2009 and FY2010
(Unaudited)

	FY2009	FY2010
Students Enrolled	120	144
Total Teachers	5	7
Revenue		
Local	\$11,505	\$37,088
State	812,445	893,155
Federal	70,064	123,324
Total Revenues	\$894,014	\$1,053,567
Total Expenditures	\$959,565	\$1,098,244

Source: "Annual Report of the Arizona Superintendent of Public Instruction," for FY2009, the School's FY2010 AFR submitted October 2010 and the School's FY2010 ADMS75 Report obtained from SAIS.

SCOPE AND METHODOLOGY

The audit focused on whether the School accurately reported enrollment and attendance data to ADE, provided sufficient instructional hours to students and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Reporting (USFR) and its own policies and procedures. The audit reviewed FY2009 and FY2010.

To conduct this audit, auditors used a variety of methods, including examining School and SAIS records for enrollment and attendance. Auditors also reviewed state statutes and School policies and procedures, and interviewed School management and staff.

Additionally, auditors performed specific tasks for the following areas:

- **Enrollment and Attendance**—To determine whether the School received the correct amount of Basic State Aid from ADE, auditors reviewed each student's attendance and enrollment information for each fiscal year audited for both school sites. Auditors obtained this information from the School which was then compared to the data in SAIS.
- **Instructional Hours Requirement**—To determine whether the School met the statutory instructional hours requirement for each grade, auditors obtained academic calendars and bell schedules from both school sites for FY2009 and FY2010. Auditors then compared the School's academic calendars and bell schedules to the requirements mandated by statute.

The Audit Unit expresses its appreciation to the Scottsdale Horizons Charter School's administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME ENROLLMENT AND ATTENDANCE TO ADE

The School did not accurately report some student enrollment and attendance data to ADE for the two fiscal years audited. Auditors found that the School misreported some enrollment and withdrawal dates. In addition, auditors found errors in some absences reported. As a result, the School's ADM was over reported by 0.12 for FY2009 and by 1.76 for FY2010, resulting in a net overstatement of ADM by 1.88. Due to the inaccurate enrollment and attendance data reported to ADE, the School received an overpayment of Basic State Aid of \$12,143.10 for the two fiscal years audited.

Student Enrollment and Withdrawal Data Errors Identified

Auditors identified several enrollment and withdrawal errors at the School that resulted in inaccurate reporting of ADM. Specifically, the School reported some students twice but failed to report other students to SAIS for the time they actually attended classes. Additionally, auditors identified a number of withdrawal issues that resulted in overstated ADM. For both fiscal years, these errors resulted in over reported ADM of 1.69.

Enrollment errors resulted in inaccurate ADM reporting—The School improperly enrolled some students which resulted in both over-reporting and under-reporting of ADM. Specifically, the School reported some students to SAIS two times but failed to report other students for their time enrolled and attending classes.

Auditors identified three students who were reported twice in SAIS in FY2010, resulting in doubling the funding provided for these students. Auditors determined that when the School attempted to make changes to these students' information contained within SAIS, instead of submitting the revised data as a change to existing students, the School inappropriately entered the students into SAIS as new students. This resulted in doubling the ADM related to these students, resulting in an over-reporting of 2.58 ADM.

In addition to the students who were reported twice to SAIS, the School also failed to properly report some students for the entire time the students were enrolled and attending the School. Auditors identified seven students were not reported to ADE for the actual amount of time that they were enrolled in and attending the School. Specifically, the School did not report three students as attending beyond the 40th day to SAIS, however, these students were actually still enrolled in and attending. The remaining four students who should have been reported to SAIS as enrolled and attending were not reported to SAIS as enrolled and attending for any part of the school year. This resulted in under-reporting of ADM for these students by 1.47.

Withdrawal issues resulted in over-reporting of ADM—In addition to the enrollment errors, the School inaccurately reported some students’ withdrawal dates to the ADE due to several factors. A.R.S. § 15-901 (A)(2) states that:

“Withdrawals include students formally withdrawn from schools and students absent for ten consecutive school days, except for excused absences as identified by the department of education. For computation purposes, the effective date of withdrawal shall be retroactive to the last day of actual attendance of the student.”

However, since the school did not always adhere to this statutory requirement, several students were not withdrawn appropriately. This resulted in an overstatement of the School’s ADM. For example:

- For three students, the withdrawal dates reported to ADE were several days after the last day that the students actually attended the school. Statutes, however, require that the student withdrawal date be the last actual day of attendance. These errors resulted in an over-reporting of 0.08 ADM.
- One student was absent for ten consecutive days but was not withdrawn as required by statute. As a result, the ADM for this student was overstated by 0.10 in FY2009.
- Three students had withdrawal forms that included the correct dates that the students withdrew from the School. However, these correct dates were not reported to SAIS. Instead, the School reported dates to SAIS that were after the correct withdrawal dates listed on the withdrawal form. This resulted in over-reported ADM of 0.40.

Reporting errors resulted in net overstating of ADM—As shown in Table 2, enrollment and withdrawal errors resulted in a net ADM overstatement of 1.69 for both fiscal years.

Table 2

**Scottsdale Horizons Charter School
ADM Adjustments Due to Enrollment and Withdrawal Errors
FY2009 and FY2010**

	FY2009 ADM	FY2010 ADM	Total ADM
Students duplicated	0.00	2.58	2.58
Students not reported to ADE	(0.17)	(1.30)	(1.47)
Withdrawn after last day of attendance	0.02	0.06	0.08
Not withdrawn after 10 days absent	0.10	0.00	0.10
Withdrawal date incorrectly reported	0.17	0.23	0.40
Total	0.12	1.57	1.69

Source: Auditor analysis of School records and SAIS data for FY2009 and FY2010.

The School Failed to Report Some Absences Accurately

Auditors identified a number of student attendance reporting errors for the two fiscal years audited. Auditors reviewed records for 305 students and compared the absences reported for them in SAIS to those in the School's records. Of these, auditors identified 35 students who had absences recorded in the original school records that did not match what was reported to SAIS for FY2009 and FY2010. This resulted in the Average Daily Attendance (ADA)¹ for these students being overstated by 0.62 over both years, as shown in Table 3.

Table 3

**Scottsdale Horizons Charter School
ADA and ADM Adjustments Due to Attendance Errors
FY2009 and FY2010**

	FY2009	FY2010	Total
Student Records Reviewed	151	154	305
Student Records with Errors	23	12	35
ADA Overstatement	0.44	0.18	0.62
ADM Overstatement	0.00	0.19	0.19

Source: Auditor analysis of School records and SAIS data for FY2009 and FY2010.

The School Was Overpaid \$12,143.10 for the Two Fiscal Years Audited

Auditors determined that the School did not receive the appropriate amount of Basic State Aid due to the inaccurate enrollment and attendance information reported to ADE for the two fiscal years audited. The net overall ADM reported by the School was overstated by 0.12 and 1.76 for FY2009 and FY2010, respectively, resulting in a net ADM overstatement of 1.88. Table 4 (see page 7) shows the ADM and funding adjustments required for the School for FY2009 and FY2010.

¹ A.R.S. § 15-902 (A) For a common or a unified school district in which the average daily membership through the first one hundred days or two hundred days in session, as applicable, of the current year has exceeded the average daily attendance through the first one hundred days or two hundred days in session, as applicable, of the current year by more than six per cent, the student count shall be determined by an adjusted average daily membership computed by multiplying the actual average daily attendance by one hundred six per cent.

Table 4

**Scottsdale Horizons
ADM and Funding Adjustments Due to
Enrollment and Attendance Errors
FY2009 and FY2010**

	FY2009 ADM	FY2010 ADM	Total ADM	Funding Adjustment
Enrollment Errors	0.12	1.57	1.69	\$10,916.00
Attendance Errors	0.00	0.19	0.19	\$1,227.10
Total	<u>0.12</u>	<u>1.76</u>	<u>1.88</u>	<u>\$12,143.10</u>

Source: Auditor analysis of School records and SAIS data for FY2009 and FY2010.

Recommendations:

1. ADE needs to recoup \$12,143.10 for incorrectly calculated enrollment and attendance.
2. The School should comply with A.R.S. § 15-901 (A) (2) and ensure students are withdrawn appropriately.

FINDING 2: THE SCHOOL WAS OVERPAID MORE THAN \$9,000 AS A RESULT OF NOT PROVIDING ENOUGH INSTRUCTIONAL HOURS

The School did not provide the statutorily-required minimum number of instructional hours to its 7th and 8th grade students for either of the two fiscal years audited. As a result, the School was overpaid over \$9,000 in Basic State Aid. Pursuant to A.R.S. § 15-915, ADE should recover these monies from the School, and the School needs to ensure its bell schedules provide students with at least the minimum number of statutorily-required instructional hours.

7th and 8th Grade Students Were Not Provided the Statutorily-Required Minimum Instructional Hours

Although all schools are required by statute to provide a minimum number of instructional hours to students, the School did not meet this requirement for its 7th and 8th grade students for either FY2009 or FY2010. Specifically, A.R.S. § 15-901 (A) (2) (b) (i) requires that public schools provide at least 1,068 instructional hours for 7th and 8th grade students during the audited fiscal years. However, as shown in Table 5, the School did not meet this statutory requirement.

Auditors analyzed the School’s bell schedules and calendars for all grades and compared them to the statutory requirements. Auditors found that the School offered sufficient instructional hours to students in kindergarten programs and in grades 1 through 6. However, the School failed to provide the minimum number of instructional hours to its 7th and 8th grade students, as shown in Table 5. Specifically, the School provided only 986.5 hours of the 1,068 required hours in FY2009 and only 990 hours were provided in FY2010.

Table 5

Scottsdale Horizons Charter School Instructional Hours Required, Provided and Percentage Provided for 7th and 8th Grade FY2009 and FY2010

Fiscal Year	Instructional Hours Provided	Instructional Hours Required	Percentage of Compliance
FY2009	986.5	1,068	92.37%
FY2010	990.0	1,068	92.70%

Source: Analysis of the School bell schedules and the A.R.S. § 15-901 minimum instructional hours requirements.

School Limited Educational Opportunities for Some Students

Since the School provided fewer instructional hours than required by statute for its 7th and 8th grade students, it inappropriately limited the amount of some of its students' education. Assuming that more time spent in the classroom results in a better education, some of the School's students received less educational opportunities because the School did not provide all of its students with the statutorily-required minimum number of instructional hours.

The School was Overpaid \$9,197.98 in Basic State Aid Funding

As a result of providing insufficient instructional hours for 7th and 8th grade students during both of the fiscal years audited, the School's ADM was overstated, resulting in the School being overpaid Basic State Aid by \$9,197.98.² As shown in Table 6, for both fiscal years audited, the School's insufficient instructional hours resulted in ADM being overstated by a total of 1.39 requiring the School's Basic State Aid to be reduced by \$9,197.98.

Table 6

**Scottsdale Horizons Charter School
ADM Overstatement and Funding Adjustment Due to
Insufficient Instructional Hours for 7th and 8th Grade
FY2009 and FY2010**

	FY2009	FY2010 ³	Total
Reported ADM⁴	7.75	10.98	18.99
Percentage Met	92.37%	92.70%	-
Audited ADM	7.16	10.18	17.58
ADM Overstated	0.59	0.80	1.39
Funding Adjustment	\$4,039.88	\$5,158.10	\$9,197.98

Source: Auditor analysis of SAIS and School student data for FY2009 and FY2010.

² ADE Guideline GE-18 provides directions for determining the ADM adjustment based on insufficient instructional hours. According to the Guideline, "If school districts or charter holders are not in compliance with the requirements for annual classroom instruction hours pursuant to A.R.S. §§15-901(A)(2)(a), (b) and (c), then annual equalization funding will be prorated accordingly. Example: A school with deficient annual hours will have their reported membership decreased based on the actual amount of instruction hours provided compared to the required annual hours. For instance, a school that provides 90 percent of the required hours will have the reported membership days reduced by 10 percent, thus ADM will be reduced by 10 percent. Annual equalization will be based on this revised ADM."

³ In FY2010, the School exceeded the absence threshold and was funded on ADE, or Adjusted ADM, per A.R.S. § 15-902.

⁴ The reported ADM amount is adjusted to account for the Enrollment and Attendance adjustments in Finding 1 (see pages 4 through 7).

Recommendations:

1. ADE needs to recoup \$9,197.98 in overpaid Basic State Aid from the School.
2. The School should ensure that it provides all students with at least the statutorily-required minimum number of instructional hours.

ADM FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of \$21,341.08 for the two fiscal years audited:

- \$10,916.00 for enrollment errors;
- \$1,227.10 for attendance errors; and
- \$9,197.98 for insufficient instructional hours.

Additionally, statutes and rules provide for a formal appeal process through the Office of Administrative Hearings if the School disagrees with the audit results. The School has thirty (30) days from the issuance of the audit report to request an appeal. Appendix A (see page a-i) presents rules that govern the appeal process.

Table 7 lists the ADM adjustments and associated Basic State Aid adjustments for the School for FY2009 and FY2010.

Table 7

**Scottsdale Horizons Charter School
ADM and Funding Adjustments Required for
FY2009 and FY2010**

	FY2009		FY2010		Total Adjustment
	ADM Adjustment	Funding Adjustment	ADM Adjustment	Funding Adjustment	
Enrollment	0.12	\$819.71	1.57	\$10,096.29	\$10,916.00
Attendance	0.00	\$0.00	0.19	\$1,227.10	\$1,227.10
Instructional Hours	0.59	\$4,039.88	0.80	\$5,158.10	\$9,197.98
Total	0.71	\$4859.59	2.56	\$16,481.49	\$21,341.08

Source: Auditor analysis of SAIS and School student and financial data for FY2009 and FY2010.

APPENDIX A

State Rules for Appealing Audits

The audit determination pursuant to A.R.S. § 15-915 is an agency action for which you can file an appeal. The audit report and cover letter, along with this information, serves as notice of your appeal rights under A.R.S. § 41-1092.04. Your right to a hearing and right to an informal settlement conference are described below in the Arizona Revised Statutes.

A.R.S. § 41-1092.03. Notice of appealable agency action; hearing; informal settlement conference; applicability

- A. An agency shall serve notice of an appealable agency action pursuant to section 41-1092.04. The notice shall identify the statute or rule that is alleged to have been violated or on which the action is based and shall include a description of the party's right to request a hearing on an appealable agency action and to request an informal settlement conference pursuant to section 41-1092.06.
- B. A party may obtain a hearing on an appealable agency action by filing a notice of appeal with the agency within thirty days after receiving the notice prescribed in subsection A of this section. The notice may be filed by a party whose legal rights, duties or privileges were determined by the appealable agency action. A notice of appeal also may be filed by a party who will be adversely affected by the appealable agency action and who exercised any right to comment on the action provided by law or rule, provided that the grounds for appeal are limited to issues raised in that party's comments. The notice of appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. The agency shall notify the office of the appeal and the office shall schedule a hearing pursuant to section 41-1092.05, except as provided in section 41-1092.01, subsection F.
- C. If good cause is shown an agency head may accept an appeal that is not filed in a timely manner.

A.R.S. § 41-1092.06. Appeals of agency actions; informal settlement conferences; applicability

- A. If requested by the appellant of an appealable agency action, the agency shall hold an informal settlement conference within fifteen days after receiving the request. A request for an informal settlement conference shall be in writing and shall be filed with the agency no later than twenty days before the hearing. If an informal settlement conference is requested, the agency shall notify the office of the request and the outcome of the conference, except as provided in section 41-1092.01, subsection F. The request for an informal settlement conference does not toll the sixty day period in which the administrative hearing is to be held pursuant to section 41-1092.05.

- B. If an informal settlement conference is held, a person with the authority to act on behalf of the agency must represent the agency at the conference. The agency representative shall notify the appellant in writing that statements, either written or oral, made by the appellant at the conference, including a written document, created or expressed solely for the purpose of settlement negotiations are inadmissible in any subsequent administrative hearing. The parties participating in the settlement conference shall waive their right to object to the participation of the agency representative in the final administrative decision.