



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Edkey Inc.- Sequoia Ranch School Fiscal Years 2013, 2014 and 2015

Report Number—16-18
January 28, 2016



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Diane Douglas
Superintendent of
Public Instruction

January 28, 2016

Brad Miles, Superintendent
Edkey, Inc. – Sequoia Ranch School
1460 S. Home
Mesa, AZ 85204

Dear Brad Miles,

The Arizona Department of Education Audit Unit has conducted an audit of the Edkey Inc. – Sequoia Ranch (School) Average Daily Membership (ADM) for Fiscal Years 2013, 2014 and 2015. The purpose of the audit was to address whether the School properly reported student enrollment to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School did not accurately report some student data, which resulted in an understatement of 3.06 ADM and an underfunding of \$13,716.07 in Basic State Aid, which must be repaid to the School as required by statute.

We appreciate the cooperation and assistance provided by the School's administration during the course of the audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lisa Eddy".

Lisa Eddy,
Chief Auditor

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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 Edkey, Inc. – Sequoia Ranch 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 FY2013 through FY2015.

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 or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district 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's information—The School offered instruction at three sites in FY2013 and two sites in FY2014 and FY2015. In FY2013, the School offered instruction in kindergarten (KG) programs and grades 1 through 8 at the Phoenix and Tempe sites and KG-12 at its Maricopa site. In FY2014, the School offered instruction in K-8 at the Tempe location and K-9 at the Phoenix location. In FY2015, the School offered instruction in K-8 at the Tempe location and K-10 at the Phoenix location. Table 1 presents the School's unaudited student, staffing and financial information for FY2013, FY2014 and FY2015.

Table 1

**Edkey, Inc. – Sequoia Ranch School
Total Students, Revenues and Expenditures
FY2013, FY2014 and FY2015
(Unaudited)**

	FY2013	FY2014	FY2015
Students Enrolled	1,388	558	514
Number of Teachers	61	26	29
Revenue			
Local	\$ 1,187,669	\$ 412,581	\$ 462,282
County	-	-	-
State	8,126,655	3,686,865	3,370,967
Federal	1,273,492	818,021	1,063,042
Total Revenues	<u>10,587,816</u>	<u>4,917,467</u>	<u>4,896,291</u>
Total Expenditures	<u>\$ 9,292,359</u>	<u>\$ 5,802,027</u>	<u>\$ 5,654,367</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2013, FY2014 and FY2015.

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 (USFR) and its own policies and procedures for FY2013, FY2014 and FY2015.

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

- ***Instructional hours***—Auditors reviewed the bell schedules and calendars for each of the charter schools for FY2013, FY2014 and FY2015. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited. No findings were identified for this area.
- ***Enrollment data***—Auditors compared SAIS data to the School's SMS and identified 300 students for review. Auditors obtained the student profiles from the School's SMS and reviewed them to determine if the enrollment data reported to ADE was correct. Auditors compared the entry and exit dates to the student profiles to determine if an adjustment was necessary. In addition, auditors reviewed the student schedules for all sampled high school students to determine if the full time equivalency (FTE) reported to ADE was correct. Depending on the number of classes needed to have a 1.0 FTE, auditors recalculated the actual FTE for the students based on the number of courses the students were taking during the year. When the audited FTE or entry or exit dates were different from the reported FTE for a student, auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***SPED Data***—Additionally, auditors determined whether an adjusted student had also been funded for a special education category. Auditors calculated the special education adjustment based on the SPED category and service code and applied this adjustment to each respective student's recalculated ADM and made appropriate adjustments to the funded ADM. 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 SAIS. No findings were identified for this area.

The Audit Unit expresses its appreciation to Edkey, Inc. - Sequoia Ranch School's administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN UNDERFUNDING OF \$13,716.07

Auditors determined that the School inaccurately reported the student enrollment data for 12 students for the three fiscal years audited. Specifically, auditors found that three students attended the School but were not reported to SAIS, six students were reported with an incorrect entry or exit date, two students were reported with an incorrect FTE and one student was reported to SAIS but did not attend the School. Of these affected students, one student generated additional Special Education (SPED) ADM weights. As a result of these errors, the School's ADM was understated by 3.06 for the fiscal years audited. Due to the inaccurate enrollment, the School was underfunded by \$13,716.07 in Basic State Aid, which according to A.R.S. § 15-915, ADE must repay to the School.

The School Inaccurately Reported Some Student Enrollment Data

Auditors determined that the School inaccurately reported 12 students' enrollment data to ADE due to various errors, which resulted in the School's ADM being understated by 3.06. ADE External Guideline and Procedures GE-17¹ states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. According to A.R.S. § 15-901, the withdrawal date for students for FY2013 is the last day of actual attendance. For FY2014 and thereafter, the withdrawal date for students is the last day of actual attendance or excused absence. Additionally, the FTE status of a student must be reported according to A.R.S. § 15-901. However, the District did not always adhere to these requirements. Specifically:

- Three students were not reported to SAIS; however, School documentation showed the students had attended one of the school sites, which resulted in the School's ADM being understated by 3.00.
- Six students were reported with an incorrect entry or exit date, which resulted in the School's ADM being understated by 0.39.
- Two students were reported to SAIS with an incorrect FTE status, which resulted in the School's ADM being overstated by 0.04.

¹ ADE External Guidelines and Procedures GE-17 states: "For the purposes of determining Average Daily Membership (ADM) for a given school year at a given public school pursuant to ARS § 15-901 (A)(2), 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."

- One student was reported to SAIS but did not attend one of the schools, which resulted in the School's ADM being overstated by 0.29.

Of these students with adjustments, one student was reported with a SPED category, whose associated SPED adjustment resulted in negligible ADM misstatement. As shown in Table 2, data reporting errors resulted in a net ADM understatement of 3.06 for the three fiscal years audited.

Table 2

**Edkey, Inc. – Sequoia Ranch School
ADM Adjustments Due to Enrollment Data Errors
FY2013, FY2014 and FY2015**

	FY2013	FY2014	FY2015	Total
Incorrect FTE	0.04	-	-	0.04
Incorrect Entry/Exit Date	(0.06)	0.06	(0.39)	(0.39)
Not in SAIS	-	(2.00)	(1.00)	(3.00)
Did Not Attend	0.29	-	-	0.29
SPED	-	0.00	-	-
Enrollment Data Errors	<u>0.27</u>	<u>(1.94)</u>	<u>(1.39)</u>	<u>(3.06)</u>

Source: Auditor analysis of School records and SAIS data for FY2013, FY2014 and FY2015.

The School Must Reconcile Its Enrollment Data With SAIS

The School can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in SAIS and by following statute and the ADE guidelines. Also, the School should review the reports produced by SAIS and reconcile them to the School's SMS data to identify any discrepancies that would affect funding and correct any errors identified. In addition, the School must ensure that it properly calculates and reports the FTE status of its students.

The School Was Underfunded by \$13,716.07

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for the three fiscal years audited. The enrollment data errors reported by the School resulted in its ADM being understated by 3.06. As a result, the School was underfunded by \$13,716.07 in Basic State Aid, which must be repaid by ADE to the School as required by A.R.S. § 15-915. Table 3 shows the ADM and funding adjustments required for the three fiscal years audited.

Table 3

**Edkey, Inc. – Sequoia Ranch School
ADM and Funding Adjustments Due to
Enrollment Data Errors
FY2013, FY2014 and FY2015**

Fiscal Year	ADM Adjustment	Net Funding Adjustment
2013	0.27	\$ 1,618.16
2014	(1.94)	(6,740.77)
2015	<u>(1.39)</u>	<u>(8,593.46)</u>
Total	<u>(3.06)</u>	<u>\$(13,716.07)</u>

Source: Auditor analysis of School records and SAIS data for FY2013, FY2014 and FY2015.

Recommendations:

1. The ADE must repay the School \$13,716.07 in Basic State Aid due to incorrectly reported enrollment data.
2. The School must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.
3. The School must comply with A.R.S. § 15-901 when calculating and reporting FTE status.

ADM and Funding Adjustments

Auditors identified an overall funding increase of \$13,716.07 for the three fiscal years audited due to inaccurate student enrollment data as reported by the School.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2013, FY2014 and FY2015.

Table 4

**Edkey, Inc. - Sequoia Ranch School
ADM and Funding Adjustments
FY2013, FY2014 and FY2015**

	FY2013		FY2014		FY2015		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Enrollment Data Errors	<u>0.27</u>	<u>\$1,618.16</u>	(1.94)	\$(6,740.77)	(1.39)	\$(8,593.46)	<u>\$(13,716.07)</u>
Funding Adjustment	<u>0.27</u>	<u>\$1,618.16</u>	<u>(1.94)</u>	<u>\$(6,740.77)</u>	<u>(1.39)</u>	<u>\$(8,593.46)</u>	<u>\$(13,716.07)</u>

Source: Auditor analysis of SAIS and School student and financial data for FY2013, FY2014 and FY2015.