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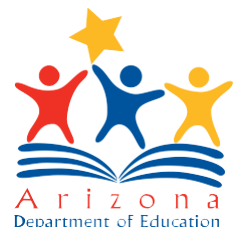
Phoenix, Arizona 85007

602-364-4061

Average Daily Membership Audit Report StarShine Academy Fiscal Years 2013, 2014 and 2015

Report Number—17-02

July 29, 2016



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Diane Douglas
Superintendent of
Public Instruction

July 29, 2016

Patricia McCarty, CEO
StarShine Academy
3535 McDowell Rd
Phoenix, AZ 85008

Dear Mrs. McCarty,

The Arizona Department of Education Audit Unit has conducted an audit of the StarShine Academy (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 overstatement of 6.55 ADM and an overfunding of \$42,730.37 in Basic State Aid, which must be repaid to ADE 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 blue ink that reads "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 StarShine Academy (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 has two school sites located in Phoenix, Arizona. In FY2013, FY2014 and FY2015, the School offered instruction in kindergarten and grades 1 through 12. Table 1 presents the School's unaudited student, staffing and financial information for FY2013, FY2014 and FY2015.

Table 1

**StarShine Academy
Total Students, Revenues and Expenditures
FY2013, FY2014 and FY2015
(Unaudited)**

	FY2013	FY2014	FY2015
Students Enrolled	235	426	325
Number of Teachers	14	31	22
Revenue			
Local	\$ 180,424	\$ 226,785	\$ 334,025
County	-	-	-
State	1,471,162	2,642,904	2,245,750
Federal	162,406	144,408	393,115
Total Revenues	<u>1,813,992</u>	<u>3,014,097</u>	<u>2,972,890</u>
Total Expenditures	<u>\$ 1,679,663</u>	<u>\$ 4,122,626</u>	<u>\$ 3,350,905</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 the charter school for FY2013, FY2014 and FY2015. Auditors identified a shortage in the provision of instructional hours for grades 7 and 8 in FY2013 and FY2014.
- ***Enrollment data***—Auditors compared SAIS data to the School's SMS and identified 456 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.
- ***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 StarShine Academy's administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL FAILED TO ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERFUNDING OF \$15,742.86

Auditors determined that the School inaccurately reported the student enrollment data for 30 students for the two fiscal years audited. Specifically, auditors found 25 students were reported with an incorrect entry or exit date, two students were reported to SAIS but did not attend the school, and three students attended the school but were not reported to SAIS. Of these affected students, 13 students generated additional Special Education (SPED) ADM weights. As a result of these errors, the School's ADM was overstated by 2.29 for the fiscal years audited. Due to this inaccurate enrollment data, the School was overfunded by \$15,742.86 in Basic State Aid, which according to A.R.S. § 15-915, the School must repay to ADE.

The School Failed To Accurately Report Some Student Enrollment Data

Auditors determined that the School inaccurately reported 30 students' enrollment data to ADE due to various errors, which resulted in the School's ADM being overstated by 2.29. 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. According to EX-1 "The Department of Education defines an excused absence as being an absence due to illness, doctor appointment, bereavement, family emergencies and out of school suspensions not to exceed 10% of the instructional days scheduled for the school year." Additionally, the FTE status of a student must be reported according to A.R.S. § 15-901. However, the School did not always adhere to these requirements. Specifically:

- 25 students were reported with an incorrect entry or exit date as a result of failure to properly withdraw students, which resulted in the School's ADM being overstated by 4.56.
- Two students were reported to SAIS but did not attend one of the schools, 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."

- 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 2.31.

Of these students with adjustments, 13 students were reported with a SPED category, whose associated SPED adjustment resulted in negligible ADM misstatement. As shown in Table 2, these data reporting errors resulted in a net ADM overstatement of 2.29 for the fiscal years audited.

Table 2

**StarShine Academy
ADM Adjustments Due to Enrollment Data Errors
FY2013, FY2014 and FY2015**

	FY2014	FY2015	Total
Incorrect Entry/Exit Date	1.66	2.90	4.56
Did Not Attend	0.04	-	0.04
<u>Not in SAIS</u>	<u>(2.31)</u>	<u>-</u>	<u>(2.31)</u>
Enrollment Data Errors	(0.61)	2.90	2.29

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

**The School Must Ensure it
Properly Withdraws Students,
Reconciles its Data and Properly
Reports Student Data**

The School can likely avoid errors in the future by ensuring it properly withdraws students, regularly and correctly reconciles its data to the data contained in SAIS, and follows statute and ADE guidelines regarding absences reporting. First, the School must properly withdraw students according to statute and 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.

The School Was Overfunded by \$15,742.86

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 fiscal years audited. The enrollment data errors reported by the School resulted in its ADM being overstated by 2.29. As a result, the School was overfunded by \$15,742.86 in Basic State Aid, which must be repaid by the School to ADE as required by A.R.S. § 15-915. Table 3 shows the ADM and funding adjustments required for the fiscal years audited.

Table 3

**StarShine Academy
ADM and Funding Adjustments Due to
Enrollment Data Errors
FY2013, FY2014 and FY2015**

Fiscal Year	ADM Adjustment	Net Funding Adjustment
2013	-	\$ -
2014	(0.61)	(3,926.52)
<u>2015</u>	<u>2.90</u>	<u>19,669.38</u>
Total	2.29	\$15,742.86

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

Recommendations:

1. The School must comply with EX-1 when determining if an absence is excused or unexcused and whether to withdraw a student.
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 repay the ADE \$15,742.86 in Basic State Aid due to incorrectly reported enrollment data.

FINDING 2: SOME STUDENTS WERE NOT PROVIDED SUFFICIENT INSTRUCTIONAL HOURS

The School failed to provide the statutorily-required minimum number of instructional hours for all students in grades 7 and 8 in FY2013 and FY2014. Auditors determined that the School failed to account for the periods of non-instruction time within its instructional program. As a result, the School was overpaid \$26,987.51 in Basic State Aid. In accordance with A.R.S. § 15-915, ADE needs to recover these monies from the School. Additionally, the School needs to ensure its bell schedules and calendar composition provide all of its students with at least the minimum number of statutorily-required instructional hours.

The School Failed to Provide All 7th and 8th Grade Students With Sufficient Instructional Hours

Although all public schools are required by statute to provide a minimum number of instructional hours to students, the School failed to meet this requirement for all students in grades 7 and 8 in FY2013 and FY2014, resulting in an ADM overstatement of 4.26. Specifically, A.R.S. § 15-901 required public schools to provide at least 1,000 instructional hours in FY2013 and FY2014 for all 7th and 8th grade students. For 2 of the 3 years audited the School failed to provide 1,000 instructional hours to these grades. Instead the School only offered 954 instructional hours in FY2013, and 951 instructional hours in FY2014. As a result, the School's ADM was overstated by 1.37 in FY2013 and 2.89 in FY2014. Table 4 shows the ADM adjustments resulting from insufficient instructional hours.

Table 4

**StarShine Academy
Instructional Hours Required, Actual Instructional Hours Provided,
Percentage of Requirement, and ADM Adjustment
for All 7th and 8th Grade Students
FY2013 and FY2014**

Fiscal Year	Instructional Hours Required	Instructional Hours Provided	Percentage of Requirement	ADM Adjustment
FY2013	1,000	954.00	95.40%	1.37
FY2014	1,000	951.33	95.13%	2.89

Source: Auditor analysis of the school's bell schedules, GE-18, GE-19, and A.R.S. § 15-901.

The School Must Ensure That All Students Meet the Required Instructional Hours

The School failed to provide sufficient instructional hours for all its 7th and 8th grade students in FY2013 and FY2014 because it failed to account for the deficiency in instructional time provided on half-days and by erroneously including non-instructional time. According to GE-18, instructional hours do not include periods of the day in which an instructional program or course of study is not being offered; therefore, breaks should not be considered instructional time.

The School needs to comply with the requirements of GE-18 and A.R.S. § 15-901 to provide all students with at least the statutorily-required number of instructional hours.

The School Was Overfunded \$26,987.51

As a result of providing insufficient instructional hours for 7th and 8th grade students in FY2013 and FY2014, the School's ADM was overstated, resulting in the School being overfunded. In FY2013 the ADM was overreported by 1.37, which resulted in a funding adjustment of \$8,464.59. In FY2014 the ADM was overreported by 2.89, which resulted in a funding adjustment of \$18,522.92.

In total, the School's insufficient instructional hours resulted in its ADM being overstated by 4.26, requiring the School's Basic State Aid to be reduced by \$26,987.51 as shown in Table 5. According to A.R.S. § 15-915, ADE needs to recoup \$26,987.51 in overpaid Basic State Aid from the School for insufficient instructional hours in FY2013 and FY2014.

Table 5

StarShine Academy ADM Overstatement and Funding Adjustment Due to Insufficient Instructional Hours for 7th and 8th Grades FY2013 and FY2014

	Instructional Hours Provided	% of Requirement Provided	Reported ADM	Audited ADM	ADM Overstated	Funding Adjustment
FY2013	954.00	95.40%	29.74	28.38	1.37	\$8,464.59
FY2014	951.33	95.13%	<u>51.90</u>	<u>49.01</u>	<u>2.89</u>	<u>\$18,522.92</u>
TOTAL			81.64	77.39	4.26	\$26,987.51

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

Recommendations:

1. The School must to ensure that it provides all students with at least the statutorily-required minimum number of instructional hours.
2. The School must ensure it complies with A.R.S. § 15-901, GE-18 and GE-19 when establishing its instructional program each year.
3. ADE needs to recoup \$26,987.51 in overpaid Basic State Aid from the School for not providing sufficient instructional hours in FY2013 and FY2014.

Finding 3: THE SCHOOL FAILED TO MAINTAIN SOME FY2013 DATA

Although required by statute, the School failed to maintain an adequately usable copy of its attendance and enrollment records from its SMS. School staff reported that a primary SMS laptop was stolen, a hard drive on the primary data server crashed, and a malicious erasure of data on the backup system by a separating employee. As a result, sufficient data to recalculate individual student ADM generation was inaccessible to the School and to auditors.

The School Failed To Maintain All of Its Attendance Records As Required By State Law

The School failed to maintain attendance and other documentation as required by state law. Both state law and ADE guidelines require schools to retain student attendance and enrollment information for at least four years, depending on the type of documentation. Additionally, these requirements are reiterated in ADE External Guideline and Procedures EX-34, which states, “*all original attendance records, whether paper or paperless, must be maintained for four years.*”

However, according to School staff, the primary computing system for the School’s SMS data was stolen by a student. Additionally, a file server that backed this data up crashed and an additional file server maintained by the School was damaged by a separating employee. While School staff made efforts to recreate student files, the daily attendance information was lost.

Recommendation:

1. The School must ensure compliance with A.R.S. § 41-151.12, Arizona State Library, Archives and Public Records Schedule Number 000-11-53 and EX-34 by maintaining all original attendance documentation for at least four years.

ADM and Funding Adjustments

Auditors identified an overall funding decrease of \$42,730.37 for the fiscal years audited due to inaccurate student enrollment data as reported by the School and instructional hours deficiencies.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2013, FY2014 and FY2015.

Table 6

**StarShine Academy
ADM and Funding Adjustments
FY2013, FY2014 and FY2015**

	FY2013		FY2014		FY2015		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Enrollment Data Errors	-	\$ -	(0.61)	\$ (3,926.52)	2.90	\$ 19,669.38	\$ 15,742.86
Instructional Hours Shortage	<u>1.37</u>	<u>8,464.59</u>	<u>2.89</u>	<u>18,522.92</u>	=	=	<u>26,987.51</u>
Funding Adjustment	<u>1.37</u>	<u>\$8,464.59</u>	<u>2.28</u>	<u>\$ 14,596.40</u>	<u>2.90</u>	<u>\$ 19,669.38</u>	<u>\$42,730.37</u>

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