



Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-4061

Average Daily Membership Audit Report Douglas Unified School District Fiscal Years 2014, 2015 and 2016

Report Number—17-17
December 13, 2016



CONTACTING THE AUDIT UNIT

Melissa Moreno, Audit Manager

Phone: (602) 364-4036

Email: Melissa.Moreno@azed.gov

Fax: (602) 364-2334

Mail: 1535 W. Jefferson St., Bin 19
Phoenix, AZ 85007-3209

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State of Arizona
Department of Education
The Audit Unit
1535 W. Jefferson St, Bin 19 • Phoenix, AZ 85007
Phone (602) 364-4061 Fax (602) 542-2734

Diane Douglas
Superintendent of
Public Instruction

December 13, 2016

Ron Aguallo, Superintendent
Douglas Unified School District
1132 12th Street
Douglas, AZ 85607

Dear Mr. Aguallo,

The Arizona Department of Education Audit Unit has conducted an audit of the Douglas Unified School District (District) Average Daily Membership for Fiscal Years 2014, 2015 and 2016. The purpose of the audit was to address whether the District properly reported student enrollment and attendance data and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the District incorrectly reported the full-time enrollment (FTE) status of 65 high school students, which resulted in its ADM being overstated by 15.81. Additionally, auditors determined that 20 students had an incorrect enrollment date, and 2 students did not attend. This resulted in an overstatement of ADM by 2.00. In addition, 10 of these students were also funded with a SPED category, resulting in an additional 1.50 ADM overstatement. As a result, the District was overfunded by \$56,695.35, which the District must repay to ADE.

We appreciate the cooperation and assistance provided by the District'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 Douglas Unified School District (District) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the District properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2014 through FY2016.

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 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.

In addition, ADE will adjust the District's budget capacity if required. ADE School Finance Memorandum 13-011 summarizes the budget capacity adjustment authorized by statute:

A.R.S. §15-915, as amended by Laws 2014, 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 FY2015 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

District information—The District, located in Douglas, Arizona, maintained five elementary schools serving students from pre-kindergarten through fifth grade. Two middle schools serving sixth, seventh and eighth grade students, and one high school during the fiscal years audited. Table 1 presents the District’s unaudited student, staffing and financial information for FY2014, FY2015 and FY2016.

Table 1

**Douglas Unified School District
Total Students, Staffing, Revenues and Expenditures
FY2014, FY2015 and FY2016
(Unaudited)**

	FY2014	FY2015	FY2016
Students Enrolled	3,753	3,864	3,740
Number of Teachers	173.50	170	171
Revenue			
Local	\$3,187,669	\$5,084,460	\$4,571,921
County	1,401,764	1,226,277	1,163,335
State	14,002,619	14,800,270	16,660,276
Federal	6,362,832	6,584,314	0
Total Revenues	<u>\$24,954,884</u>	<u>\$27,695,322</u>	<u>\$22,395,532</u>
Total Expenditures	<u>\$27,890,569</u>	<u>\$28,366,068</u>	<u>\$18,665,229</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2014, FY2015 and District AFR for FY2016 submitted 10/5/16.

SCOPE AND METHODOLOGY

The audit focused on whether the District 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 FY2014, FY2015 and FY2016.

To conduct this audit, auditors used a variety of methods, including examining District and SAIS records for enrollment to review 1,206 of 12,033 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 District policies and procedures, and interviewed District management and staff. Specifically:

- ***FTE calculations*** – Auditors reviewed the high school bell schedules and student schedules to determine whether the District reported the correct full time enrollment (FTE) data to ADE. 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 classes the students were taking during the year. When the audited FTE was different from the reported FTE for a student, auditors recalculated the ADM.
- ***Enrollment data*** – Auditors reviewed student profiles 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. Auditors also reviewed absences to ensure that they were reported correctly, and made adjustments if they were needed.
- ***Residency*** – Auditors reviewed a total of 150 students to verify whether residency documentation was maintained to show students resided in Arizona. No findings were identified for this area.
- ***Instructional hours*** – Auditors reviewed the bell schedules and calendars for each of the District's schools for FY2014, FY2015 and FY2016. 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.

The Audit Unit expresses its appreciation to the District's administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$56,695.35

Auditors determined that the District inaccurately reported the student data for 87 students for FY2014, FY2015 and FY2016. Specifically, auditors found that 65 students had an incorrect FTE reported, 20 had incorrect enrollment data reported and two students did not attend. Additionally, 10 of these students were also reported and funded for a special education category. As a result, the District's special education ADM was over reported by 1.50. In total, the District's ADM was over reported by 20.39. As a result, the District was overfunded by \$56,695.35 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the District.

The District Inaccurately Reported Some Student Data

The District inaccurately reported 87 students' enrollment data to ADE due to various errors, which resulted in the District's ADM being overstated by 20.39.

According to A.R.S. § 15-901 and ADE Guidelines and Procedures EX-18 (EX-18), for a high school student to be reported as a 1.0 FTE, the student must be enrolled in at least four courses 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 courses enrolled.¹ ADE External Guideline and Procedures GE-17² states that, 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. However, the District did not always adhere to these requirements. Specifically, for the students that were sampled:

- 65 students had an incorrect FTE reported, which resulted in the District's ADM being overstated by 15.81.
- 20 students had incorrect enrollments dates reported, which resulted in the District's ADM being overstated by 1.08.

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 courses 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 courses 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 courses 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 course which meets for at least 123 hours annually.

² 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."

- Two students were enrolled but did not attend, which resulted in the District's ADM being overstated by 2.00.
- 10 of these students were also funded with a SPED category, so the weighted SPED ADM was overstated by 1.50.

The District Failed to Comply With Statute and ADE Guidelines

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

Auditors determined that 65 of the District's students did not meet the statutory and ADE guideline requirements for full time enrollment (FTE). According to analysis of the District's bell schedule and calendar for the District's high school, auditors determined that as long as a student was enrolled in six courses each semester, they would receive enough hours and courses to be considered full time. However, the FTE that was reported for 65 students was not correct based on the number of classes the students were enrolled in. The District overreported the FTE for 65 students.

According 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. The District misreported the enrollment date of 20 students.

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

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 20.39 for the three fiscal years audited.

Table 2

Douglas Unified School District ADM Adjustments Due to Student Data Errors FY2014, FY2015 and FY2016

	Incorrect FTE	Incorrect Enrollment Data	Did Not Attend	SPED	Total
FY2014	7.07	0.90	1.00	0.09	9.06
FY2015	3.22	0.03	1.00	0.00	4.25
FY2016	5.52	0.15	0.00	1.41	7.08
Total	<u>15.81</u>	<u>1.08</u>	<u>2.00</u>	<u>1.50</u>	<u>20.39</u>

Source: Auditor analysis of District records, SAIS data for FY2014, FY2015 and FY2016, A.R.S. § 15-901, and EX-18

The District Was Overfunded by \$56,695.35

Auditors determined that the District did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for FY2014, FY2015 and FY2016. The student data errors reported by the District resulted in its ADM being overstated by 20.39. This resulted in a Basic State Aid adjustment of \$65,565.96. However, due to the Growth formulas, this amount needs to be reduced by \$8,870.61. As a result, the District was overfunded by \$23,197.18 for FY2014 and \$33,498.18 for FY2015. The ADM for FY2016 was not used to determine Basic State Aid because the funding formula transitioned from using prior year data to current year data in FY2017. Therefore, no funding adjustment is necessary for the ADM overstatement in FY2016. The total overfunding for the District was \$56,695.35, which ADE must recoup from the District. Table 3 shows the ADM and funding adjustments required for the District for FY2014, FY2015 and FY2016.

Table 3

**Douglas Unified School District
ADM and Funding Adjustments Due to
Student Data Errors
FY2014, FY2015 and FY2016**

	FY2014	FY2015	FY2016	Total
ADM Adjustments	9.06	4.25	7.08	<u>20.39</u>
Basic State Aid	\$44,039.67	\$21,526.29	\$0.00	<u>\$65,565.96</u>
Growth	\$(20,842.49)	\$11,971.89	\$0.00	<u>\$(8,870.61)</u>
Total Funding Adjustments	\$23,197.18	\$33,498.18	\$0.00	<u>\$56,695.35</u>

Source: Auditor analysis of District records and SAIS data for FY2014, FY2015 and FY2016.

Recommendations:

1. ADE must recoup from the District \$56,695.35 in Basic State Aid due to incorrectly reported student data.
2. The District needs to ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.
3. The District must comply with A.R.S. § 15-901 when reporting entry and exit dates to ADE.

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 2014, 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 FY2015 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

Budget capacity adjustment required—The District must adjust its budget capacity for the three fiscal years audited. Budget capacity adjustment calculations for the District will be made by ADE's School Finance Unit once the audit is finalized.

Basic State Aid adjustment of \$56,695.35 required to be repaid to ADE—Auditors identified an overall funding adjustment of \$56,695.35 for the three fiscal years audited due to inaccurate student data.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the District for FY2014, FY2015 and FY2016.

Table 4

**Douglas Unified School District
ADM and Funding Adjustments
FY2014, FY2015 and FY2016**

	FY2014	FY2015	FY2016	Total
ADM Adjustments	9.06	4.25	7.08	<u>20.39</u>
Funding Adjustments	\$23,197.18	\$33,498.18	\$0.00	\$56,695.35

Source: Auditor analysis of SAIS and School student and financial data for FY2014, FY2015 and FY2016.