



Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-4061

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

Report Number—17-34

June 29, 2017



CONTACTING THE AUDIT UNIT

Matthew D. Boucher, Audit Manager

Phone: (602) 542-8815

Email: Matt.Boucher@azed.gov

Fax: (602) 364-2334

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

OBTAINING ADDITIONAL COPIES

To obtain additional copies of this report, please submit a formal request to the address below:

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



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

June 29, 2017

Roger Jacks, Superintendent
Kingman Unified School District
3033 MacDonald Ave
Kingman, AZ 86401

Dear Mr. Jacks,

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

Auditors determined that the District did not accurately report some student data for FY2014, FY2015 and FY2016, which resulted in the District's ADM being understated by 0.720. As a result, the District was overfunded by \$2,032.16, 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 cursive script, appearing to read "Lisa Eddy".

Lisa Eddy,
Chief Auditor

TABLE OF CONTENTS

	<u>Page</u>
Introduction and Background.....	1
Scope and Methodology	3
Finding 1: The District Did Not Accurately Report Some Student Data Resulting In An Overfunding of \$2,032.16	4
The District Inaccurately Reported Some Student Enrollment Data.....	4
The District Must Reconcile Its Enrollment Data With ADE and Maintain Documentation	5
The District Was Overfunded by \$2,032.16	5
Recommendations	6
ADM and Funding Adjustments.....	7
Tables:	
1 Kingman Unified School District Total Students, Revenues and Expenditures FY2014, FY2015 and FY2016 (Unaudited)	2
2 Kingman Unified School District ADM Adjustments Due to Enrollment Data Errors FY2014, FY2015 and FY2016.....	5
3 Kingman Unified School District ADM and Funding Adjustments Due to Enrollment Data Errors FY2014, FY2015 and FY2016.....	6
4 Kingman Unified School District ADM and Funding Adjustments Required for FY2014, FY2015 and FY2016.....	7

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Kingman 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 2012, 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 FY2013 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 is located in Kingman, Arizona and maintained 11 schools during the three fiscal years audited. The District offered instruction in pre-school (PSD) and kindergarten (KG) programs and grades 1 through 12 during the fiscal years audited. Table 1 presents the District's unaudited student, staffing and financial information for FY2014, FY2015 and FY2016.

Table 1

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

	FY2014	FY2015	FY2016
Students Enrolled	7,019	6,883	6,780
Number of Teachers	314	314	312
Revenue			
Local	29,820,495	\$ 27,627,177	\$ 31,267,246
County	2,781,442	2,569,558	3,335,049
State	14,460,043	15,300,833	18,306,964
Federal	7,043,435	6,581,123	7,651,258
Total Revenues	<u>54,465,415</u>	<u>52,078,691</u>	<u>60,560,517</u>
Total Expenditures	<u>\$ 56,439,941</u>	<u>\$ 55,353,366</u>	<u>\$ 52,846,673</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2014, FY2015 and FY2016.

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 ADE records for enrollment. Auditors also reviewed state statutes and District policies and procedures, and interviewed District management and staff. Specifically:

- ***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 finding was identified for this area.
- ***Enrollment data***— Auditors compared the District’s student management system to data reported to ADE and identified 258 of 7,560 students in FY2014, 243 of 7,477 students in FY2015 and 244 of 7,557 students in FY2016 for a total of 745 students for further evaluation. Auditors reviewed these 745 student profiles to determine if the enrollment data reported to ADE was accurate. Auditors compared the student profiles to determine if the entry and exit date were correct. When the audited entry or exit dates were different from the reported dates for a student, auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***SPED Data***—Additionally, for the 4 students with associated SPED weights, where an ADM adjustment was made, auditors determined whether the 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 ADE. No findings were identified for this area.

The Audit Unit expresses its appreciation to Kingman Unified School District’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$2,032.16

The District inaccurately reported the student enrollment data for 19 students for the three fiscal years audited. Specifically, auditors found that 18 students were reported with an incorrect FTE and one student with incorrect enrollment dates. Additionally, of these students, 4 carried additional SPED weights, which were also adjusted. As a result of these errors, the District's ADM was understated by 0.720 for the three fiscal years audited. Due to the incorrect enrollment data, the District was overfunded \$2,032.16 in Basic State Aid, which the District must repay to the ADE pursuant to A.R.S. § 15-915.

The District Inaccurately Reported Some Student Enrollment Data

Auditors determined that the District inaccurately reported 19 students' enrollment data due to various errors, which resulted in the District's ADM being understated by 0.720. 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:

- 18 students were reported with an incorrect FTE status, which resulted in the District's ADM being understated by 0.0770.
- 1 student was reported with an incorrect enrollment date, which resulted in the District's ADM being overstated by 0.050

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."

Of these students with adjustments, 4 students were reported with a SPED category, whose associated SPED adjustment resulted in an immaterial ADM misstatement. As shown in Table 2, data reporting errors resulted in a net ADM understatement of 0.720 for the three fiscal years audited.

Table 2
Kingman Unified School District
ADM Adjustments Due to Enrollment Data Errors
FY2014, FY2015 and FY2016

	FY2014	FY2015	FY2016	Total
Incorrect FTE	(0.458)	(0.353)	0.040	(0.770)
Incorrect enrollment Dates	-	0.050	-	0.050
SPED	<u>0.000</u>	<u>(0.000)</u>	<u>-</u>	<u>0.000</u>
Enrollment Data Errors	(0.457)	(0.303)	0.040	(0.720)

Source: Auditor analysis of School records and ADE data for FY2014, FY2015 and FY2016.

The District Must Reconcile Its Enrollment Data With ADE and Maintain Documentation

The District can avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE by following statute and the ADE guidelines, as well as maintaining required documentation. In addition, the District should review the reports produced by ADE and reconcile them to the District's SMS data to identify any discrepancies that would affect funding and correct any errors identified. Additionally, the District must maintain required documentation in accordance with the State Library and Archives Records Retention Schedule.

The District Was Overfunded by \$2,032.16

Auditors determined that the District did not receive the correct amount of Basic State Aid due to incorrect enrollment data reported to ADE for the audited timeframe. The enrollment data errors reported by the District resulted in its ADM being understated by 0.720. However, since the District was not eligible for Basic State Aid for its high school students in FY2014 and FY2015, due to the District's local revenue sources, only the adjustments identified by auditors for the District's K-8 students in FY2014 and FY2015 are eligible for Basic State Aid adjustment. As a result, the District was overfunded by \$2,032.16 in Basic State Aid. According to A.R.S. § 15-915, the District needs to reimburse ADE \$2,032.16 in overfunded Basic State Aid for enrollment data errors for the three fiscal years audited as shown in Table 3 (page 6).

Table 3

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

Fiscal Year	ADM Adjustment	Net Funding Adjustment
2014	(0.457)	\$ 2,019.62
2015	(0.303)	(1,573.81)
2016	<u>0.040</u>	<u>1,586.35</u>
Total	(0.720)	\$2,032.16

Source: Auditor analysis of School records and ADE data for FY2014, FY2015 and FY2016.

Recommendations:

1. The District must properly reconcile its data each year to ensure it complies with GE-17 and A.R.S. § 15-901.
2. The District must maintain documentation in accordance with the State Library and Archives Records Retention Schedule.
3. The District must repay ADE \$2,032.16 in Basic State Aid due to incorrectly reported enrollment data.

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 2012, 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 FY2013 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 once the audit is finalized.

Basic State Aid adjustment of \$2,032.16 required to be repaid to ADE—Auditors identified an overall funding decrease of \$2,032.16 for the three fiscal years audited due to inaccurate student enrollment data.

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

Table 4

**Kingman Unified School District
ADM and Funding Adjustments Required for
FY2014, FY2015 and FY2016**

	FY2014		FY2015		FY2016		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Total Funding Adjustment	(0.457)	\$ 2,019.62	(0.303)	\$ 1,586.35	0.040	\$ 1,586.35	\$ 2,032.16