



## Arizona Department of Education

The Audit Unit  
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# Average Daily Membership Audit Report Life Skills Center of Arizona, Inc. Fiscal Years 2015, 2016, and 2017

Report Number—18-30  
May 15, 2018



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Diane Douglas  
Superintendent of  
Public Instruction

May 15, 2018

D'Andrea Chapman, Principal  
Life Skills Center of Arizona, Inc.  
8123 N. 35th Avenue, Suite 2  
Phoenix, Arizona 85051

Dear Dr. Chapman,

The Arizona Department of Education Audit Unit has conducted an audit of the Life Skills Center of Arizona, Inc. (School) Average Daily Membership (ADM) for Fiscal Years 2015, 2016, and 2017. 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 attendance data, AOI data and enrollment data for Fiscal Years 2015, 2016, and 2017, which resulted in an overstatement of 10.05 ADM. As a result, the School was overfunded by \$70,267.23, which the School must repay to ADE.

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

Sincerely,

Tammy Seilheimer,  
Chief Auditor

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## INTRODUCTION AND BACKGROUND

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The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the Life Skills Center of Arizona, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for Fiscal Years (FY) 2015, 2016, and 2017.

***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's 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's 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 charters' funding be made in the current budget year. In case of hardship, charters 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 information**— The School has a high school located in Phoenix, Arizona. In Fiscal Years 2015, 2016, and 2017, the School offered instruction in grades 9 through 12.

Table 1 presents the School's unaudited student, staffing and financial information for Fiscal Years 2015, 2016, and 2017.

**Table 1**

**Life Skills Center of Arizona, Inc.  
Total students, revenues and expenditures  
Fiscal Years 2015, 2016, and 2017  
(Unaudited)**

	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Students Enrolled</b>	<b>265</b>	<b>182</b>	<b>152</b>
<b>Revenue</b>			
Local	\$ 0	\$ 0	\$ 0
County	\$ 0	\$ 0	\$ 0
State	\$1,217,181	\$1,422,444	\$1,186,656
Federal	\$0	\$0	\$0
<b>Total Revenues</b>	<b>\$1,217,181</b>	<b>\$1,422,444</b>	<b>\$1,186,656</b>
<b>Total Expenditures</b>	<b>\$1,186,524</b>	<b>\$1,455,841</b>	<b>\$1,145,770</b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Years 2015, 2016, and FY2017.

## SCOPE AND METHODOLOGY

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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 Fiscal Years 2015, 2016, and 2017.

To conduct this audit, auditors used a variety of methods, including examining School and ADE 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 School’s bell schedules and calendars for the fiscal years audited and determined that the School provided at least the minimum number of instructional hours as required by statute for each grade level.
- ***Attendance data***—Auditors obtained the attendance reports and the original attendance records for each of the students sampled. Auditors compared this to the attendance reported to ADE. When the attendance data was improperly reported, auditors determined any adjustments that were necessary.
- ***Arizona Online Instruction (AOI) data***—Auditors compared 100% of the Arizona Online Instruction data that was reported to ADE to the AOI data from the School for fiscal year 2015. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. If the data reported to ADE was incorrect, an adjustment was determined.
- ***Enrollment data***—Auditors compared the School’s student management system to ADE’s system and identified 115 of students for further evaluation. Auditors reviewed enrollment data to determine if the entry and exit dates reported to ADE were accurate. In addition, auditors compared enrollment dates to the School’s calendar to ensure enrollment dates were calculated correctly. When the audited entry or exit dates were different from the reported dates auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- ***Special Education (SPED) Data***—Auditors reviewed the students to determine if any were also funded for one of the special education categories. When students with a special education category also had an adjustment, auditors made an adjustment to the special education weight as well. No findings were identified for this area.

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.

The Audit Unit expresses its appreciation to the Life Skills Center of Arizona, Inc.’s administration and staff members for their cooperation and assistance throughout the audit.

## **FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT ATTENDANCE DATA, RESULTING IN AN OVERPAYMENT OF \$66,303.63**

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The School inaccurately reported the student attendance data for 68 of its students for Fiscal Years 2015, 2016, and 2017. Specifically, auditors determined that the enrollment and withdrawal dates for 44 students were reported incorrectly because of inaccurate attendance. In addition, 24 students did not have any records indicating they attended the School at all during the year. In total, the School's ADM was overstated by 9.45 for its students for the three fiscal years audited. As a result, the School was overfunded by \$66,303.63, which the School must pay pursuant to A.R.S. § 15-915.

### **The School inaccurately reported some student attendance data**

The School inaccurately reported the attendance data for their students during each of the three fiscal years audited. As a result of improper attendance practices, the ADM for 68 students was overreported, which resulted in the School's ADM being overreported by 9.45. ADE External Guideline and Procedures GE-17 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 FY2014 and thereafter, the withdrawal date for students is the last day of actual attendance or excused absence. In addition, students with ten consecutive unexcused absences should also be withdrawn. However, the School did not always adhere to these requirements. Specifically:

- 44 students had incorrect enrollment and withdrawal dates that were reported to ADE's Student Data System. This was either due to the student's not actually being present on their enrollment or withdrawal date, or through 10 consecutive unexcused absences that were not reported correctly. This resulted in the School's ADM being overstated by 7.39.
- 24 students were reported to ADE's Student Data System; however, no documentation showed the student as attending, which resulted in the School's ADM being overstated by 2.06.

As shown in Table 2 (see page 5), data reporting errors resulted in a net ADM overstatement of 9.45 for Fiscal Years 2015, 2016, and 2017.

**Table 2**

**Life Skills Center of Arizona, Inc.  
ADM adjustments due to attendance errors  
Fiscal Years 2015, 2016, and 2017**

	<b>Incorrect Enrollment Dates</b>	<b>Did not Attend</b>	<b>Total</b>
2015	3.06	1.12	4.18
2016	2.93	0.70	3.63
2017	1.40	0.24	1.64
<b>Total</b>	<b>7.39</b>	<b>2.06</b>	<b>9.45</b>

Source: Auditor analysis of School records and A.R.S. § 15-901.

## **The School failed to comply with statute**

The School did not follow statute when calculating and reporting student attendance to ADE.

According to A.R.S. § 15-901, daily attendance can be counted as 0.25 of a day's attendance for each 60 minutes of instructional time. However, the School did not track the time that students arrived at the School or when they left for the day. No partial day attendance was calculated, and instead students were reported as either present or absent with no documentation of how long they were at the School that day.

In addition, A.R.S. § 15-901 requires that a student be “actually and physically in attendance.” Students can be counted as present when working for home only if they are considered homebound as certified by a medical doctor. However, the students that were working from home did not meet the requirements to be considered homebound. The School was not requiring students to be physically present in order to be reported for attendance on that day. It allowed students to work from home, and counted the student present for those days.

In addition to not following the statute when collecting attendance, the School also improperly reported the attendance taken. When comparing original attendance that was taken by the teachers in a student’s homeroom to the attendance in the School’s system and reported to ADE, auditors found many discrepancies. Attendance was reported on many days that the records showed the student was absent on those days.

In the future, the School must ensure it complies with statute when it calculates attendance, and it must ensure that actual attendance is properly reported to ADE.

## **The School was overfunded by \$66,303.63**

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate attendance data reported to ADE for the three years audited. As a result, the School was overfunded by \$66,303.63 in Basic State Aid, which the School must pay to ADE pursuant to A.R.S. § 15-915. Table 3 shows the ADM and funding adjustment due to attendance data errors.

**Table 3**

**Life Skills Center of Arizona, Inc.  
ADM and funding adjustments due to attendance data errors  
Fiscal Years 2015, 2016, and 2017**

	<b>ADM Adjustment</b>	<b>Funding Adjustment</b>
2015	4.18	\$ 28,365.73
2016	3.63	\$ 26,005.99
2017	1.64	\$ 11,931.91
<b>Total</b>	<b>9.45</b>	<b>\$ 66,303.63</b>

Source: Auditor analysis of School records, A.R.S. § 15-901 and EX-18.

### **Recommendations:**

1. The School must pay ADE \$66,303.63 in Basic State Aid due to inaccurately reported enrollment data.
2. The School must ensure it complies with statute when it calculates attendance, and it must ensure that actual attendance is properly reported to ADE.

## **FINDING 2: THE SCHOOL DID NOT ACCURATELY REPORT SOME AOI DATA, RESULTING IN AN OVERPAYMENT OF \$4,578.52**

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The School did not accurately report enrollment data for all 77 of its AOI students to ADE for FY2015. Specifically, auditors found that 77 students had been reported as full-time students for FY2015. However, according to the documentation provided the students should have been reported as part-time students. Since full-time and part-time students are weighted differently, the School's weighted AOI ADM was overstated by 0.68. As a result, the School was overfunded by \$4,578.52, which the School must repay to the ADE pursuant to A.R.S. § 15-915.

### **The School inaccurately reported some AOI data**

Auditors determined that student data for all 77 of its AOI students was inaccurate, which resulted in the School's weighted AOI ADM being overstated by 0.68 for FY2015. According to A.R.S. § 15-808 and SF-0003, a student is funded at 95% for students that are full-time, and funded at 85% for students that are part-time. The enrollment status for AOI students is based on the number of classes a student participates in during the year. If a student is enrolled in and participates in four or more classes during the year, then they are considered full-time for AOI. If a student is enrolled in less than 4 classes, they are considered part-time for AOI.

When reviewing documentation for the 77 students enrolled in the AOI at the School for FY2015, auditors determined that all of them took fewer than four classes. As a result, they should have been reported as part-time students not full-time students.

As shown in Table 4, AOI data reporting errors resulted in a net weighted ADM overstatement of 0.68 for FY2015.

**Table 4**

**Life Skills Center of Arizona, Inc.  
AOI ADM Adjustments  
Fiscal Year 2015**

	<b>ADM Adjustments</b>	<b>AOI Weighted Adjustment</b>
Full Time	6.75	6.42
Part Time	(6.75)	(5.74)
<b>Total</b>	<b>0.00</b>	<b>0.68</b>

Source: Auditor analysis of School records and ADE's System data for Fiscal Years 2015.

## **The School must properly reconcile its enrollment data with ADE's system**

The School can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE's system. The School should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE and reconcile them to the School's AOI SMS data to identify any discrepancies and correct any errors identified. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students and their enrollment status.

## **The School was overfunded by \$4,578.52**

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate AOI student data reported to ADE for the three fiscal years audited. The enrollment data errors reported by the School resulted in its ADM being overstated by 0.68. As shown in Table 5, due to the overstatement of 0.68 ADM for its AOI enrollment data, the School received an overpayment of \$4,578.52 in Basic State Aid for FY2015, which the School must repay to ADE pursuant to A.R.S. § 15-915.

**Table 5**

**Life Skills Center of Arizona, Inc.  
AOI ADM and funding adjustments  
Fiscal Year 2015**

	<b>Total</b>
Weighted ADM Adjustment	0.68
Total Funding Adjustment	\$ 4,578.52

Source: Auditor analysis of School records and ADE's System data for Fiscal Years 2015.

## **Recommendations:**

1. The School must repay ADE \$4,578.52 in Basic State Aid for the fiscal years audited for incorrect AOI enrollment data.
2. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

## **FINDING 3: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT ENROLLMENT DATA, RESULTING IN AN UNDERPAYMENT OF \$614.92**

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The School inaccurately reported the student enrollment data for 21 of its students for Fiscal Years 2015, 2016, and 2017. Specifically, 12 students were reported with incorrect enrollment days because the calendar for FY2017 was reported incorrectly. In addition, auditors determined that nine students were reported with an incorrect exit date. In total, the School's ADM was understated by 0.08 for its students for the three fiscal years audited. As a result, the School was underfunded by \$614.92, which ADE must repay to the School pursuant to A.R.S. § 15-915.

### **The School inaccurately reported some student enrollment data**

The School inaccurately reported the enrollment data for 21 students to ADE due to various errors, which resulted in the School's ADM being underreported by 0.08. According to A.R.S. § 15-901, ADM is calculated based on the first 100 days of the School. In addition, the withdrawal date for students is the last day of actual attendance or excused absence. However, the School did not always adhere to these requirements. Specifically:

- 12 students' ADM was calculated incorrectly due to the calendar for FY2017 being reported improperly. Many of the holidays that were included on the calendar were not reported to ADE, and as a result, the ADM was calculated on the incorrect first 100 days of the School. As a result, the School's ADM was understated by 0.17.
- 9 students were reported with an exit day of the day after their last day of attendance, which resulted in the School's ADM being overstated by 0.09.

As shown in Table 6, data reporting errors resulted in a net ADM understatement of 0.08 for Fiscal Years 2015, 2016, and 2017.

**Table 6**

**Life Skills Center of Arizona, Inc.  
ADM adjustments due to enrollment data errors  
Fiscal Years 2015, 2016, and 2017**

	<b>Improperly reported calendar</b>	<b>Incorrect exit date</b>	<b>Total</b>
2015	0.00	0.06	0.06
2016	0.00	0.03	0.03
2017	(0.17)	0.00	(0.17)
<b>Total</b>	<b>(0.17)</b>	<b>0.09</b>	<b>(0.08)</b>

Source: Auditor analysis of School records and A.R.S. § 15-901.

## **The School must properly reconcile its enrollment data with ADE**

The School can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE's system. Additionally, the School must ensure that a process is in place that captures the proper entry and exit dates of students to ensure proper funding and reporting of data. The School should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE and reconcile them to the School's SMS data to identify any discrepancies and correct any errors identified. The School should review its internal reporting practices and ensure that it properly documents the actual entry and exit dates of students pursuant to statute, and that the calendars reported to ADE are correct.

## **The School was underfunded by \$614.92**

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 years audited. As a result, the School was underfunded by \$614.92 in Basic State Aid, which ADE must pay to the School pursuant to A.R.S. § 15-915. Table 7 shows the ADM and funding adjustment due to enrollment data errors.

**Table 7**

**Life Skills Center of Arizona, Inc.  
ADM and funding adjustments due to enrollment data errors  
Fiscal Years 2015, 2016, and 2017**

	<b>ADM Adjustment</b>	<b>Funding Adjustment</b>
2015	0.06	\$ 406.87
2016	0.03	\$ 215.05
2017	(0.17)	\$ (1,236.84)
<b>Total</b>	<b>(0.08)</b>	<b>\$ (614.92)</b>

Source: Auditor analysis of School records, A.R.S. § 15-901 and EX-18.

## **Recommendations:**

1. ADE must pay the School \$614.93 in Basic State Aid due to inaccurately reported enrollment data.
2. The School must ensure the calendar it reports to ADE each year is correct.
3. The School must properly reconcile its data each year to ensure it complies with ADE External Guideline and Procedures GE-17 and A.R.S. § 15-901.

## ADM AND FUNDING ADJUSTMENTS

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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.*

**Basic State Aid adjustment of \$70,267.23 required to be paid to ADE**—Auditors identified an overall funding decrease of \$70,267.23 for the three fiscal years audited due to inaccurate student attendance data, AOI enrollment status, and student enrollment data.

Table 8 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for Fiscal Years 2015, 2016, and 2017.

**Table 8**

**Life Skills Center of Arizona, Inc.  
ADM and funding adjustments  
Fiscal Years 2015, 2016, and 2017**

	2015		2016		2017		<b>Total</b>
	<b>ADM</b>	<b>Funding</b>	<b>ADM</b>	<b>Funding</b>	<b>ADM</b>	<b>Funding</b>	
Attendance	4.18	\$ 28,365.73	3.63	\$ 26,005.99	1.64	\$ 11,931.91	\$ 66,303.63
AOI	0.68	\$ 4,578.52	-	-	-	-	\$ 4,578.52
Enrollment Data	0.06	\$ 406.87	0.03	\$ 215.05	(0.17)	\$ (1,236.84)	\$ (614.92)
<b>Total Funding Adjustment</b>	<b>4.92</b>	<b>\$ 33,351.12</b>	<b>3.66</b>	<b>\$ 26,221.04</b>	<b>1.47</b>	<b>\$ 10,695.07</b>	<b>\$ 70,267.23</b>

Source: Auditor analysis of School records and ADE's System data for Fiscal Years 2015, 2016, and 2017.