



# Arizona Department of Education

The Audit Unit

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## Average Daily Membership Audit Report Heritage Academy, Inc. Fiscal Years 2010, 2011 and 2012

Report Number—14-2

December 17, 2013

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John Huppenthal  
Superintendent of  
Public Instruction

December 17, 2013

Earl Taylor, Principal  
Heritage Academy, Inc.  
32 South Center  
Mesa, AZ 85210

Dear Principal Taylor,

The Arizona Department of Education Audit Unit has conducted an audit of the Heritage Academy, Inc. (School) Average Daily Membership for Fiscal Years 2010, 2011 and 2012. The purpose of the audit was to address whether the School properly reported student enrollment and attendance and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School was overfunded based on incorrectly calculated and reported full-time enrollment status of some students for all three fiscal years, inaccurately reported student data for FY2010 and FY2011 and insufficient instructional hours provided to 7<sup>th</sup> and 8<sup>th</sup> grade students in FY2010. As a result of these findings, the School was overfunded \$116,330.75 in Basic State Aid for all three fiscal years. The Notice of Audit Findings and Required Reimbursement issued concurrently with this report becomes final 30 days after issuance, unless the School files an appeal.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Ross Begnoche".

Ross Begnoche,  
Associate Superintendent, Business & Finance

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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 Heritage Academy, 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 FY2010 through FY2012.

*Average Daily Membership audits of district and charter holder funding*—Pursuant to A.R.S. § 15-239, ADM audits 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 also receives The Notice of Audit Findings and Required Reimbursement (Notice) that details the audit findings and determination of the Superintendent of Public Instruction regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915. As described in the next paragraph, 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 of Public Instruction allow a correction to be made partly in the current budget year and partly in the following budget year.

*School financial and other information*—The School, located in Mesa, Arizona, maintained one campus during the fiscal years audited for students in grades 7 through 12. In FY2012, the School

enrolled a total of 610 students. Table 1 presents the School's unaudited student, staffing and financial information for FY2010, FY2011 and FY2012.

**Table 1**

**Heritage Academy, Inc.  
Total Students, Staffing, Revenues and Expenditures  
FY2010, FY2011 and FY2012  
(Unaudited)**

	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>
<b>Students Enrolled</b>	<b>519</b>	<b>578</b>	<b>610</b>
<b>Number of Teachers</b>	31	36	34
<b>Revenue</b>			
Local	\$ 254,021	\$ 249,001	\$ 337,351
Intermediate	\$ 0	\$ 0	\$ 0
State	\$2,783,194	\$3,645,293	\$4,095,428
Federal	\$ 675,380	\$ 169,963	\$ 0
<b>Total Revenues</b>	<b>\$3,712,595</b>	<b>\$4,064,257</b>	<b>\$4,432,779</b>
<b>Total Expenditures</b>	<b>\$3,371,970</b>	<b>\$3,473,018</b>	<b>\$4,017,116</b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2010, FY2011 and FY2012.

# SCOPE AND METHODOLOGY

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The audit focused on whether the School accurately reported its enrollment 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 FY2010, FY2011 and FY2012.

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

Additionally, auditors performed specific tasks for the following finding areas:

- **FTE Status Miscalculations**—To determine whether the School correctly reported the FTE status of students to ADE, auditors reviewed the attendance profiles of 253 students who were potentially only attending the school part time. Auditors then compared the instructional time each student was scheduled to attend to the requirements in statute and ADE guidelines to determine correct FTE status.
- **Enrollment Data Errors**—To determine whether the School reported the correct enrollment data to ADE, auditors reviewed 253 student cumulative files and attendance profiles. The first and last days of attendance were then compared to the enrollment and withdrawal dates that were reported to SAIS. When discrepancies were identified, auditors recalculated the ADM for each student based on the actual enrollment period.
- **Instructional Hours Insufficient**—To determine whether the School met the statutory instructional hours requirement for each grade, auditors obtained academic calendars and bell schedules for FY2010, FY2011 and FY2012. Auditors calculated the instructional hours for all grades to determine if sufficient instructional hours were provided. In addition, auditors interviewed School personnel to obtain additional information regarding the schedules for the years audited. Auditors then compared the calendars and bell schedules to the requirements mandated by statute and ADE guidelines.

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

# **FINDING 1: THE SCHOOL INCORRECTLY CALCULATED AND REPORTED FTE FOR 79 STUDENTS RESULTING IN OVERFUNDING OF \$96,109.57**

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Auditors determined that the School incorrectly calculated and reported to ADE the enrollment status of 79 high school students, resulting in the School's ADM being overstated by a total of 15.551 for the three fiscal years audited. This occurred because the School failed to comply with statute and ADE guidelines when calculating the FTE status of these students. As a result, the School was overfunded by \$96,109.57 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the School. Additionally, the School needs to ensure it complies with statute and ADE guidelines to properly calculate and report student FTE.

## **The School Incorrectly Calculated and Reported FTE for 79 Students**

Auditors determined that the School improperly calculated the FTE status for some of its high school students for all three fiscal years audited. Auditors identified 79 high school students whose FTE status was reported to ADE incorrectly. As a result, the School's ADM was overstated by a total of 15.551, as shown in Table 2.

**Table 2**

**Heritage Academy, Inc.  
Number of Students With Incorrect FTE and ADM Adjustment  
FY2010, FY2011 and FY2012**

	FY2010	FY2011	FY2012	Total
Number of Students with Incorrect FTE	24	31	24	79
<b>Total ADM Adjustment</b>	<b>2.952</b>	<b>7.403</b>	<b>5.197</b>	<b>15.551</b>

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

## **The School Failed to Comply With Statute and ADE Guidelines**

The School did not follow statute and ADE guidelines when calculating and reporting student FTE for some students. According to A.R.S. § 15-901 and ADE Guidelines and Procedures EX-18 (EX-18), a high school student must be scheduled for at least 720 instructional hours during the year and at least 20 hours per week for the student to be reported as one FTE. A student who does not meet these

requirements is considered a part-time student and their FTE status is prorated based on the number of instructional hours provided.<sup>1</sup>

Auditors determined that 79 of the School’s students did not meet the statutory and ADE guideline requirements for full time enrollment. According to School administrators, students were mistakenly reported as attending full-time (1.0 FTE) if they were enrolled in four or more classes. However, according to analysis of the School’s bell schedule and calendar, students would have needed to take at least six classes each week in order to be counted as enrolled full-time pursuant to statute and ADE guidelines. As shown in Table 3, the School misreported FTE for students enrolled in six classes or less.

**Table 3**

**Heritage Academy, Inc.  
Number of Classes, Actual Instructional Hours Provided Per Week,  
Incorrect FTE Calculated and Reported by School to ADE, Correct FTE  
FY2010, FY2011 and FY2012**

<b>Number of Classes</b>	<b>Actual Instructional Hours Provided Per Week</b>	<b>Incorrect FTE Calculated and Reported by School to ADE</b>	<b>Correct FTE That Should Have been Reported to ADE</b>
1	4.0	0.25	0.00
2	7.6	0.50	0.25
3	11.1	0.75	0.50
4	14.7	1.0	0.50
5	18.3	1.0	0.75
6 or more	21.8	1.0	1.0

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

The School needs to ensure it complies with statute and ADE guidelines to properly calculate and report FTE.

**The School Was Overpaid  
\$96,109.57 in Basic State Aid**

Because the School improperly calculated and reported its FTE for 79 students, the School was overpaid \$96,109.57 in Basic State Aid. Table 4 (see page 6) illustrates the overpayment per fiscal year and the total overpayment. According to A.R.S. § 15-915, ADE needs to recoup \$96,109.57 in overpaid Basic State Aid from the School for incorrectly reported FTE for all three fiscal years audited.

<sup>1</sup> 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 20 hours per week, a 0.75 FTE student must be scheduled for at least 540 hours of instruction and at least 15 hours per week, a 0.50 FTE student must be scheduled for at least 360 hours of instruction and at least 10 hours per week and a 0.25 FTE student must be scheduled for at least 180 hours of instruction and at least 5 hours per week.

**Table 4**

**Heritage Academy, Inc.  
ADM Adjustment Due to Miscalculated FTE and Funding Adjustment  
FY2010, FY2011 and FY2012**

	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>Total</b>
ADM Adjustment Needed Due to Miscalculated FTE	2.952	7.403	5.197	15.551
Funding Adjustment	<b>\$18,721.95</b>	<b>\$45,333.62</b>	<b>\$32,054.00</b>	<b>\$96,109.57</b>

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

**Recommendations:**

1. ADE needs to recoup \$96,109.57 in overpaid Basic State Aid from the School for incorrectly reported FTE for all three fiscal years audited.
2. The School needs to ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.

## **FINDING 2: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$3,965.25**

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The School did not accurately report some student enrollment data to ADE for FY2010. Specifically, auditors found that the School misreported enrollment and withdrawal dates for 13 students, reported 3 students who did not attend the School, failed to report 3 students who did attend the School and inappropriately reported one student twice. As a result, the School's ADM was understated by a total of 0.838 for FY2010, was overstated by 1.515 in FY2011 and had no data error adjustments for FY2012. Due to the inaccurate enrollment data reported to ADE, the School received a net overpayment of \$3,965.25 in Basic State Aid for the three fiscal years audited.

### **Student Enrollment Data Errors Identified**

The School inaccurately reported 20 students' enrollment data to ADE. According to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. Additionally, ADE Guideline GE-17<sup>2</sup> states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance.

However, the School did not always adhere to these requirements. For 20 students, the School did not report the correct enrollment data to ADE. This resulted in a net overstatement of the School's ADM. Specifically:

- 13 students had either an incorrect entry date or withdrawal date that was reported to SAIS, which resulted in the School's ADM being overstated by 0.007.
- 3 students did not have any attendance documentation that indicated they ever attended the School, which resulted in the School's ADM being overstated by 1.216.
- 3 students were not reported to SAIS; however, the attendance documentation listed the student as being enrolled and attending the School, which resulted in the School's ADM being understated by 0.825.
- 1 student was reported to SAIS twice with two different SAIS numbers, which resulted in the School's ADM being overstated by 0.280.

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<sup>2</sup> ADE Guideline 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."

As shown in Table 5, enrollment data errors resulted in a net ADM overstatement of 0.678 for FY2010, FY2011 and FY2012.

**Table 5**

**Heritage Academy, Inc.  
ADM Adjustments Due to Enrollment Data Errors  
FY2010, FY2011 and FY2012**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
Incorrect entry or withdrawal date	(0.013)	0.019	0	0.007
Did not attend the School, but was in SAIS	0	1.216	0	1.216
Attended the School, but was not in SAIS	(0.825)	0	0	(0.825)
Duplicated in SAIS	0	0.28	0	0.280
<b>Total</b>	<b>(0.838)</b>	<b>1.515</b>	<b>0</b>	<b>0.678</b>

Source: Auditor analysis of School records and SAIS data for FY2010, FY2011 and FY2012.

**The School Needs to Reconcile  
Its Data With SAIS**

Although the School did not correctly reconcile its data to the data contained in SAIS, it can avoid errors in the future by ensuring that it performs this function. If the School had properly reconciled its data to SAIS throughout the school year, these enrollment errors could have been identified, and the School would not have been overfunded because of these errors. The School should have reviewed the reports produced by SAIS and reconciled them to the School’s SMS data to identify any discrepancies that would affect funding.

**The School Was Overpaid  
\$3,965.25 for FY2010 and FY2011**

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 FY2010 and FY2011. The data errors reported by the School resulted in its ADM being overstated by 0.678 for the three fiscal years audited. This resulted in the Basic State Aid being overfunded by \$3,965.25, which ADE needs to recoup. Table 6 (see page 9) shows the ADM and funding adjustments required for the School for FY2010, FY2011 and FY2012.

**Table 6**

**Heritage Academy, Inc.  
ADM and Funding Adjustments Due to  
Enrollment Data Errors  
FY2010, FY2011 and FY2012**

	<b>ADM</b>	<b>Funding</b>
2010	(0.838)	\$(5,312.25)
2011	1.515	\$ 9,277.50
2012	0	\$ 0
<b>Total</b>	<b>0.678</b>	<b>\$ 3,965.25</b>

Source: Auditor analysis of School records and SAIS data for FY2010, FY2011 and FY2012.

**Recommendations:**

1. ADE needs to recoup from the School \$3,965.25 in overfunding due to incorrectly reported enrollment and withdrawal dates.
2. The School should reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.

### **FINDING 3: SOME STUDENTS NOT PROVIDED SUFFICIENT INSTRUCTIONAL HOURS**

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The School failed to provide the statutorily-required minimum number of instructional hours for students in grades 7 and 8 in FY2010. Auditors determined that the School inappropriately counted excessive passing time and passing time between non-instructional classes as part of its instructional program. As a result, the School was overpaid more than \$16,000 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the School. Additionally, the School needs to ensure its bell schedules provide all of its students with at least the minimum number of statutorily-required instructional hours.

#### **The School Failed to Provide Some Students With Sufficient Instructional Hours**

Although all schools are required by statute to provide a minimum number of instructional hours to students, the School failed to meet this requirement for students in grades 7 and 8 during FY2010, resulting in an ADM overstatement of 2.563. Specifically, A.R.S. § 15-901 required public schools to provide at least 1,068 instructional hours in FY2010 for all students in grades 7 and 8. However, the School only offered 1,055.6 instructional hours. As a result, the School's ADM was overstated by 2.563 in FY2010. Table 7 shows the ADM adjustments resulting from insufficient instructional hours in FY2010.

**Table 7**

**Heritage Academy, Inc.  
Instructional Hours Required, Actual Instructional Hours Provided,  
Percentage of Requirement and ADM Adjustment  
for Grade 7 and 8 Students  
FY2010**

Fiscal Year	Instructional Hours Required	Actual Instructional Hours Provided	Percentage of Requirement	ADM Adjustment
FY2010	1,068	1,055.6	98.84%	2.563
<b>Total</b>				<b><u>2.563</u></b>

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

## **The School Inappropriately Counted Excess Passing Time as Instructional Time**

The School failed to provide sufficient instructional hours for its 7<sup>th</sup> and 8<sup>th</sup> grade students in FY2010 because it inappropriately counted passing time that exceeded the limits authorized in GE-19 and inappropriately counted passing time between noninstructional periods as part of the instructional hours required. Auditors reviewed School bell schedules and interviewed School administrators and determined that the School provided its students with ten minutes of passing time between both instructional and non-instructional classes. The School counted all ten minutes of passing time as instructional time and counted the passing time before and after lunch as instructional time. However, according to Arizona Department of Education External Guidelines GE-19<sup>3</sup>, a school district or charter school may only count up to seven minutes of passing time between instructional periods as part of the instructional hours offered to students.

The School needs to comply with the requirements of GE-18 and GE-19 to provide all students with at least the statutorily-required number of instructional hours.

## **The School Was Overpaid \$16,255.93 in Basic State Aid**

As a result of providing insufficient instructional hours for students in grades 7 and 8 for FY2010, the School's ADM was overstated, resulting in the School being overpaid Basic State Aid.<sup>4</sup> As shown in Table 8 (see page 12), the School's insufficient instructional hours resulted in its ADM being overstated by a total of 2.563, requiring the School's Basic State Aid to be reduced by \$16,255.93. According to A.R.S. § 15-915, ADE needs to recoup \$16,255.93 in overpaid Basic State Aid from the School for insufficient instructional hours in FY2010.

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<sup>3</sup> ADE External Guideline GE-19 states "b. A total of seven (7) minutes or less of passing time can be included in calculating the annual instructional hours. Annual instructional hours are specified in A.R.S. §15-901(A) (2) (a) (b) or (c). c. Passing time not allowed: a) Passing time in excess of seven (7) minutes shall not be included in calculating the annual instructional hours required in A.R.S. §15-901(A)(2)(a)(b) or (c). b) Passing time to or from one instructional program to a non-instructional program such as lunch, homeroom, study hall and recess shall not be included in the calculation of annual instructional hours".

<sup>4</sup> ADE External Guideline GE-18 provides directions for determining the ADM adjustment based on insufficient instructional hours. According to the Guideline, "If school districts or charter holders are not in compliance with the requirements for annual classroom instruction hours pursuant to A.R.S. §§15-901(A)(2)(a), (b) and (c), then annual equalization funding will be prorated accordingly. Example: A school with deficient annual hours will have their reported membership decreased based on the actual amount of instruction hours provided compared to the required annual hours. For instance, a school that provides 90 percent of the required hours will have the reported membership days reduced by 10 percent, thus ADM will be reduced by 10 percent. Annual equalization will be based on this revised ADM."

**Table 8**

**Heritage Academy, Inc.  
ADM Overstatement and Funding Adjustment Due to  
Insufficient Instructional Hours for Grade 7 and 8 Students  
FY2010**

<b>FY2010</b>	<b>Grade 7</b>	<b>Grade 8</b>	<b>Total</b>
Reported ADM	115.095	105.638	220.733
Instructional Hours Percentage Provided	98.84%	98.84%	-
Audited ADM	113.759	104.411	218.170
ADM Overstated	1.336	1.227	2.563
<b>Funding Adjustment</b>	<b>\$8,476.21</b>	<b>\$7,779.72</b>	<b>\$16,255.93</b>

Source: Auditor analysis of SAIS and School student data for FY2010 and FY2011.

**Recommendations:**

1. ADE needs to recoup \$16,255.93 in overpaid Basic State Aid from the School for not scheduling sufficient instructional hours in FY2010.
2. The School needs to ensure that it provides all students with at least the statutorily-required minimum number of instructional hours.

# ADM AND FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of \$116,330.76 for the three fiscal years audited:

- \$96,109.57 for incorrect FTE status reported to ADE;
- \$3,965.25 for inaccurate enrollment data reported to ADE; and
- \$16,255.93 for not providing sufficient instructional hours.

Table 9 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2010, FY2011 and FY2012.

**Table 9**

**Heritage Academy, Inc.  
ADM and Funding Adjustments Required for  
FY2010, FY2011 and FY2012**

	FY2010		FY2011		FY2012		Total Adjustment
	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid	
Incorrect FTE	2.952	\$ 18,721.95	7.403	\$45,333.62	5.197	\$32,054.00	\$ 96,109.57
Data Errors	(0.838)	\$ (5,312.25)	1.515	\$ 9,277.50	0	\$ 0.00	\$ 3,965.25
Instructional Hours	2.56	\$ 16,255.93	0	\$ 0.00	0	\$ 0.00	\$ 16,255.93
<b>Total</b>	<b>4.677</b>	<b>\$29,665.63</b>	<b>8.918</b>	<b>\$54,611.12</b>	<b>5.197</b>	<b>\$32,054.00</b>	<b>\$116,330.75</b>

Source: Auditor analysis of SAIS and School student and financial data for FY2010, FY2011 and FY2012.