



Arizona Department of Education

The Audit Unit
1535 W. Jefferson St., Bin 19
Phoenix, Arizona 85007
602-364-4038

Average Daily Membership Audit Report Heritage Academy, Inc. Fiscal Year 2013

Report Number—14-10

April 3, 2014

**CONTACTING
THE AUDIT UNIT**

Brian Lockery, Audit Manager

Phone: (602) 364-4038
Email: Brian Lockery@azed.gov
Fax: (602) 542-3099
Mail: 1535 W. Jefferson St., Bin 19
Phoenix, AZ 85007-3209

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Arizona Department of Education—The Audit Unit
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Phoenix, AZ 85007-3209
Phone: (602) 364-4063



State of Arizona
Department of Education
The Audit Unit
1535 W. Jefferson St, Bin 19 • Phoenix, AZ 85007
Phone (602) 364-4061 Fax (602) 542-3099

John Huppenthal
Superintendent of
Public Instruction

April 3, 2014

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

Dear Principal Taylor,

The Arizona Department of Education (ADE) Audit Unit has conducted a limited scope audit of the Heritage Academy, Inc. Average Daily Membership (ADM) for Fiscal Year 2013. The purpose of the audit was to address whether the School properly reported student full-time enrollment and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School's ADM was overstated because the School had miscalculated the full-time enrollment status for 39 students. As a result, the School was overpaid Basic State Aid, which must be repaid to ADE.

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 "Lisa Eddy".

Lisa Eddy,
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted a limited scope Average Daily Membership (ADM) audit of Heritage Academy, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported the full-time enrollment (FTE) status of its students to ADE and received the correct amount of Basic State Aid for FY2013.

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, ADE issues The Notice of Audit Findings and Required Reimbursement (Notice) to the entity 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. 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 year audited for students in grades 7 through 12. In FY2013, the School

enrolled a total of 635 students. Table 1 presents the School's unaudited student, staffing and financial information for FY2013.

Table 1

**Heritage Academy, Inc.
Total Students, Staffing, Revenues and Expenditures
FY2013
(Unaudited)**

	FY2013
Students Enrolled	635
Number of Teachers	34
Revenue	
Local	\$ 367,429
Intermediate	\$ 0
State	\$4,226,891
Federal	\$ 0
Total Revenues	<u>\$4,594,320</u>
Total Expenditures	<u>\$4,265,904</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2013.

SCOPE AND METHODOLOGY

The audit focused on whether the School accurately reported its student FTE 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.

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 finding. To determine whether the School correctly reported the FTE status of students to ADE, auditors reviewed the attendance profiles of 45 students who were identified by the School as being enrolled in less than six classes and 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.

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 THE FTE STATUS FOR 39 STUDENTS RESULTING IN OVERFUNDING OF \$41,534.32

Auditors determined that the School incorrectly calculated and reported to ADE the enrollment status of 39 high school students, resulting in the School's ADM being overstated by a total of 6.639 for FY2013. This occurred because the School did not comply with statute and ADE guidelines when calculating the FTE status of these students. As a result, the School was overfunded by \$41,534.32 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the School. Additionally, the School must ensure it complies with statute and ADE guidelines to properly calculate and report student FTE.

The School Incorrectly Calculated and Reported FTE for 39 Students

Auditors determined that the School incorrectly calculated the FTE status for some of its high school students for the fiscal year audited. Auditors identified 39 high school students whose FTE status was reported to ADE incorrectly. As a result, the School's ADM was overstated by a total of 6.639, as shown in Table 2.

Table 2

**Heritage Academy, Inc.
Number of Students with Incorrect FTE and
ADM Adjustment
FY2013**

	FY2013
Number of Students with Incorrect FTE	39
Total ADM Adjustment	6.639

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

The School Did Not Follow 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 External 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.¹

Auditors determined that 39 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 and
Correct FTE That Should Have Been Reported to ADE
FY2013**

Number of Classes	Actual Instructional Hours Provided Per Week	Incorrect FTE Calculated and Reported by School to ADE	Correct FTE That Should Have Been Reported to ADE
1	4.07	0.25	0.00
2	7.40	0.50	0.25
3	10.73	0.75	0.50
4	14.07	1.00	0.50
5	18.13	1.00	0.75
6 or more	21.47	1.00	1.00

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

According to staff, the School has corrected the miscalculation of student FTE status by building custom reports to identify and correct FTE issues that arise. In the future, the School must ensure it complies with statute and ADE guidelines to properly calculate and report FTE.

**The School Was Overpaid
\$41,534.32 in Basic State Aid**

Because the School incorrectly calculated and reported its FTE for 39 students, the School was overpaid \$41,534.32 in Basic State Aid. Table 4 (see page 6) illustrates the total overpayment. According to

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 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.

A.R.S. § 15-915, ADE must recoup \$41,534.32 in overpaid Basic State Aid from the School for incorrectly reported FTE for the fiscal year audited.

Table 4

**Heritage Academy, Inc.
ADM Adjustment Due to Miscalculated FTE and
Funding Adjustment
FY2013**

	FY2013
ADM Adjustment Needed Due to Miscalculated FTE	6.639
Funding Adjustment	\$41,534.32

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

Recommendations:

1. ADE must recoup \$41,534.32 in overpaid Basic State Aid from the School for incorrectly reported FTE for the fiscal year audited.
2. The School must ensure that it properly calculates and reports students' FTE status pursuant to statute and ADE guidelines.

ADM AND FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of \$41,534.32 for FY2013 as a result of the incorrectly calculated FTE status reported to ADE.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2013.

Table 5

**Heritage Academy, Inc.
ADM and Funding Adjustments Required for
FY2013**

	FY2013		Total Adjustment
	ADM	Basic State Aid	
Incorrect FTE	<u>6.639</u>	<u>\$41,534.32</u>	<u>\$41,534.32</u>
Total	<u>6.639</u>	<u>\$41,534.32</u>	<u>\$41,534.32</u>

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