



Arizona Department of Education

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Average Daily Membership Audit Report Paragon Education Corporation Fiscal Years 2012, 2013 and 2014

Report Number—15-13

October 23, 2014

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John Huppenthal
Superintendent of
Public Instruction

October 23, 2014

Fatih Karatas, CEO
Paragon Education Corporation
2975 W Linda Ln
Chandler, AZ 85224

Dear Mr. Fatih Karatas,

The Arizona Department of Education Audit Unit has conducted an audit of the Paragon Education Corporation Average Daily Membership for Fiscal Years 2012, 2013 and 2014. 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 identified some enrollment data errors made by the School. For the three years audited, the School's ADM was overstated by 0.90, which resulted in the School being overfunded by \$7,013.36 which the School is required to repay to ADE.

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

Sincerely,

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 Paragon Education Corporation (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 FY2012 through FY2014.

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, auditors 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. 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 information—The School, located in Chandler, Arizona, maintained one campus during the fiscal years audited for students in grades K through 12.

SCOPE AND METHODOLOGY

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 FY2012, FY2013 and FY2014.

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 enrollment data and the FTE status of students to ADE, auditors reviewed the student profiles of 51 students who were randomly selected. Auditors then compared this to the data reported in SAIS to determine if there were any adjustments.

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 DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN OVERPAYMENT OF \$7,013.36

The School did not accurately report some student enrollment data for five students to ADE for FY2012, FY2013 and FY2014. Specifically, auditors found that the School misreported enrollment and withdrawal dates for one student and reported four students who did not attend the School. As a result, the School's ADM was overstated by 0.90 for the three fiscal years audited. As a result, the School was overfunded \$7,013.36 which it needs to repay to ADE.

The School Inaccurately Reported Student Data

The School misreported the enrollment data for five students for FY2013 and FY2014, which resulted in the School's ADM being overstated by 0.90. ADE Guideline GE-17¹ states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. Additionally, according to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. However, the School did not always adhere to these requirements. Specifically:

- 1 student had either an incorrect entry or withdrawal date reported to SAIS, which resulted in the School's ADM being understated by 0.13.
- 4 students were reported to SAIS; however, School attendance documentation listed the students as not enrolled or attending, which resulted in the School's ADM being overstated by 1.03.

As shown in Table 2, student enrollment data errors resulted in a net ADM overstatement of 0.90 for FY2012, FY2013 and FY2014.

¹ 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."

Table 2

**Paragon Education Corporation
ADM Adjustments Due to Enrollment Data Errors
FY2012, FY2013 and FY2014**

Fiscal Year	Incorrect Entry/Exit Date		Did not attend		Total ADM Adjustment
	Number of Students	ADM	Number of Students	ADM	
2012	0	0.00	0	0.00	0.00
2013	1	(0.13)	0	0.00	(0.13)
2014	0	0.00	4	1.03	1.03
Total	1	(0.13)	4	1.03	0.90

Source: Auditor analysis of School records and SAIS data for FY2012, FY2013 and FY2014.

**The School Must Reconcile
Its Reported Data with SAIS**

The School can likely avoid errors in the future by ensuring it correctly reconciles its data to the data contained in SAIS. If the School had properly reconciled its data to SAIS, these enrollment errors could likely have been identified, and the School would not have been overfunded because of these errors. The School should review the reports produced by SAIS and reconcile them to the School's SMS data to identify any discrepancies that would affect funding.

**The School Was Overpaid
\$7,013.36 in Basic State Aid**

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 FY2012, FY2013 and FY2014. The data errors reported by the School resulted in its ADM being understated by 0.13 for FY2013; however, as a result of the formula for the support level weight used for small schools, the funding was overstated by \$807.59. In addition, the School's ADM was overstated by 1.03 in FY2014, resulting in an overfunding of \$6,205.77. This resulted in the Basic State Aid being overfunded by a total of \$7,013.36, which ADE must recoup. Table 3 shows the ADM and funding adjustments required for the School for FY2012, FY2013 and FY2014.

Table 3

**Paragon Education Corporation
ADM and Funding Adjustments Due to Data Errors
FY2012, FY2013 and FY2014**

	ADM	Funding
2012	0.00	\$0.00
2013	(0.13)	807.59
2014	<u>1.03</u>	<u>\$6,205.77</u>
Total	<u>0.90</u>	<u>\$7,013.36</u>

Source: Auditor analysis of School records and SAIS data for FY2012, FY2013 and FY2014.

Recommendations:

1. The School must repay \$7,013.36 in overfunding due to incorrectly reported data.
2. The School must ensure it complies with A.R.S. § 15-901 and ADE Guideline GE-17 when reporting enrollment data to SAIS.
3. The School must reconcile its data each year to ensure it complies with statute and ADE guidelines.

ADM AND FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of \$7,013.36 for the three fiscal years audited:

- \$7,013.36 for enrollment data errors

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2012, FY2013 and FY2014.

Table 4
Paragon Education Corporation
ADM and Funding Adjustments Required for
FY2012, FY2013 and FY2014

	FY2012		FY2013		FY2014		Total Adjustment
	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid	
Enrollment Data Errors	0.00	\$0.00	(0.13)	\$807.59	1.03	\$6,205.77	\$7,013.36
Total	<u>0.00</u>	<u>\$0.00</u>	<u>(0.13)</u>	<u>\$807.59</u>	<u>1.03</u>	<u>\$6,205.77</u>	<u>\$7,013.36</u>

Source: Auditor analysis of SAIS and School student and financial data for FY2012, FY2013 and FY2014.