



# Arizona Department of Education

The Audit Unit  
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## Average Daily Membership Audit Report Phoenix Education Management, LLC. Fiscal Years 2012, 2013 and 2014

Report Number—15-18

October 31, 2014

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John Huppenthal  
Superintendent of  
Public Instruction

October 31, 2014

Willie Henry, Director  
Phoenix Education Management, LLC.  
1903 East Roeser Rd.  
Phoenix, AZ 85040

Dear Mr. Henry,

The Arizona Department of Education (ADE) Audit Unit has conducted an audit of the Phoenix Education Management, LLC. (School) Average Daily Membership (ADM) 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 determined that the School incorrectly reported some student enrollment data, which resulted in the School's ADM being understated for all three fiscal years by 1.41. As a result, the School was underfunded by \$8,457.33 in Basic State Aid that must be repaid by the State to the School.

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

Sincerely,

A handwritten signature in cursive script that reads "Lisa Eddy".

Lisa Eddy,  
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 Phoenix Education Management, LLC. (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, 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, 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 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 School’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.*

**School financial and other information**—The School, located in Phoenix, Arizona, maintained one school during FY2012 and FY2013 and FY2014. Table 1 presents the School’s unaudited student, staffing and financial information for FY2012, FY2013 and FY2014.

**Table 1**

**Phoenix Education Management, LLC.  
Total Students, Staffing, Revenues and Expenditures  
FY2012, FY2013 and FY2014  
(Unaudited)**

	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>
<b>Students Enrolled</b>	<b>672</b>	<b>678</b>	<b>N/A<sup>1</sup></b>
<b>Number of Teachers</b>	35	37	32
<b>Revenue</b>			
Local	\$3,753	\$20,604	\$8,034
County	-	-	-
State	3,635,652	3,787,410	4,180,738
Federal	339,227	375,903	393,096
<b>Total Revenues</b>	<b><u>\$3,978,632</u></b>	<b><u>\$4,183,917</u></b>	<b><u>\$4,581,868</u></b>
<b>Total Expenditures</b>	<b><u>\$6,096,466</u></b>	<b><u>\$6,156,094</u></b>	<b><u>\$6,438,242</u></b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2012 and FY2013. For FY2014, the Annual Financial Report submitted by the School.

<sup>1</sup> Not included in the Annual Financial Report submitted by the School.

## 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 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. To determine whether the School reported the correct enrollment data to ADE, auditors reviewed 117 student profiles. The first and last days of attendance were then compared to the enrollment and withdrawal dates that were reported to SAIS. In addition, auditors reviewed the SAIS data for each of these students to determine if they were also funded for any of the special education categories. If an adjustment was determined for a student with a special education category, auditors made an adjustment to the special education ADM for that student.

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 UNDERPAYMENT OF \$8,457.33**

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The School inaccurately reported the student enrollment data for 14 of the School's students for FY2012, FY2013 and FY2014. Specifically, auditors determined six students who attended a School were not properly reported to SAIS, seven students had either an incorrect entry or withdrawal date and one student who was reported to SAIS did not attend a School. As a result of these errors, the School's ADM was understated by 1.41 for the three fiscal years audited. Due to the inaccurate enrollment data, the School received a net underpayment of \$8,457.33 in Basic State Aid for the three fiscal years audited 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 14 students' enrollment data to ADE due to various errors, which resulted in the School's ADM being underreported by 1.41. ADE External Guideline and Procedures GE-17<sup>1</sup> 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 FY2012 and FY2013 is the last day of actual attendance, for FY2014 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:

- Six students were not reported to SAIS; however, School attendance documentation showed the student as being enrolled and attending, which resulted in the School's ADM being understated by 2.59.
- Seven students had either an incorrect entry or withdrawal date that was reported to SAIS, which resulted in the School's ADM being overstated by 0.68.
- One student did not have any attendance documentation that indicated they had attended the School, which resulted in the School's ADM being overstated by 0.50.

As shown in Table 2 (see page 5), data reporting errors resulted in a net ADM understatement of 1.41 for FY2012, FY2013 and FY2014.

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<sup>1</sup> 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."

**Table 2**

**Phoenix Education Management, LLC.  
ADM Adjustments Due to Enrollment Data Errors  
FY2012, FY2013 and FY2014**

	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>Total</b>
Attended the School, but was not funded	(0.50)	(1.77)	(0.32)	<b>(2.59)</b>
Did not attend the School, but was funded	0.50	-	-	<b>0.50</b>
Incorrect entry or withdrawal date	<u>(1.05)</u>	<u>1.53</u>	<u>0.20</u>	<b><u>0.68</u></b>
<b>Enrollment Data Errors</b>	<b><u>(1.05)</u></b>	<b><u>(0.24)</u></b>	<b><u>(0.12)</u></b>	<b><u>(1.41)</u></b>

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

**The School Must Reconcile  
Its Enrollment Data With SAIS**

The School can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in SAIS. 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 and correct any errors identified.

**The School Was Underfunded  
by \$8,457.33**

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 enrollment data errors reported by the School resulted in its ADM being understated by 1.41 for the three fiscal years audited. As a result, the School was underfunded by \$8,457.33 in Basic State Aid. According to A.R.S. § 15-915, ADE must repay the School \$8,457.33 in Basic State Aid for data enrollment errors for the three fiscal years audited. Table 3 (see page 6) shows the ADM and funding adjustments required for the School for FY2012, FY2013 and FY2014.

**Table 3**

**Phoenix Education Management, LLC.  
ADM and Funding Adjustments Due to  
Data Enrollment Errors  
FY2012, FY2013 and FY2014**

<b>Fiscal Year</b>	<b>ADM Adjustment</b>	<b>Basic State Aid Adjustment</b>
2012	(1.05)	\$ (5,902.03)
2013	(0.24)	(1,850.99)
2014	(0.12)	(704.31)
<b>Total</b>	<b>(1.41)</b>	<b>\$ (8,457.33)</b>

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

**Recommendations:**

1. ADE must repay the School \$8,457.33 in Basic State Aid due to incorrectly reported enrollment data.
2. The School must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.

# 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 \$8,457.33 required to be repaid to the School**—Auditors identified an overall funding increase of \$8,457.33 for the three fiscal years audited due to erroneous student data.

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

**Table 4**

**Phoenix Education Management, LLC.  
ADM and Funding Adjustments  
FY2012, FY2013 and FY2014**

	FY2012		FY2013		FY2014		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Enrollment Data Errors	(1.05)	\$ (5,902.03)	(0.24)	\$ (1,850.99)	(0.12)	\$ (704.31)	\$ (8,457.33)
<b>Total Funding Adjustment</b>	<b><u>(1.05)</u></b>	<b><u>\$ (5,902.03)</u></b>	<b><u>(0.24)</u></b>	<b><u>\$ (1,850.99)</u></b>	<b><u>(0.12)</u></b>	<b><u>\$ (704.31)</u></b>	<b><u>\$ (8,457.33)</u></b>

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