



## Arizona Department of Education

The Audit Unit

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# Average Daily Membership Audit Report American Heritage Academy Fiscal Years 2014, 2015 and 2016

Report Number—18-01

July 31, 2017



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Diane Douglas  
Superintendent of  
Public Instruction

July 31, 2017

Tony Rhineheart, Assistant Superintendent  
American Heritage Academy  
1460 S Horne  
Mesa, AZ 85204

Dear Mr. Rhineheart,

The Arizona Department of Education Audit Unit has conducted an audit of the American Heritage Academy (School) Average Daily Membership (ADM) for Fiscal Years 2014, 2015 and 2016. 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 provide sufficient instructional hours and inaccurately reported some students' enrollment data, which resulted in an overstatement of 6.06 ADM and an overfunding of \$38,171.20 in Basic State Aid, which must be repaid to ADE as required by statute.

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 American Heritage Academy (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported enrollment data to ADE and received the correct amount of Basic State Aid for FY2014 through FY2016.

***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 (ADE), 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.

*School's information*—The School operates two school sites located in Cottonwood and Camp Verde, Arizona. In FY2014, FY2015 and FY2016, the School offered instruction in kindergarten and grades 1 through 12. Table 1 presents the School's unaudited student, staffing and financial information for FY2014, FY2015 and FY2016.

**Table 1**

**American Heritage Academy  
Total Students, Revenues and Expenditures  
FY2014, FY2015 and FY2016  
(Unaudited)**

	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>
<b>Students Enrolled</b>	<b>449</b>	<b>454</b>	<b>458</b>
<b>Number of Teachers</b>	31	29	29
<b>Revenue</b>			
Local	\$94,014	\$ 61,563	\$ 189,944
Intermediate	0	0	0
County	-	-	-
State	2,951,199	2,991,702	3,037,334
Federal	137,465	166,260	106,967
<b>Total Revenues</b>	<b><u>3,182,678</u></b>	<b><u>3,219,525</u></b>	<b><u>3,334,245</u></b>
<b>Total Expenditures</b>	<b><u>\$ 2,958,814</u></b>	<b><u>\$ 3,220,745</u></b>	<b><u>\$ 3,460,543</u></b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2014, FY2015 and FY2016.

## 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 for Arizona Charter Schools (USFRCS) and its own policies and procedures for FY2014, FY2015 and FY2016.

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 bell schedules and calendars for the charter school for FY2014, FY2015 and FY2016. Auditors identified a shortage in the provision of instructional hours for FY2014, FY2015 and FY2016.
- **Enrollment data**— Auditors compared the School’s student management system to SAIS and identified 116 of 493 students in FY2014, 179 of 492 students in FY2015 and 184 of 504 students in FY2016, for a total of 479 students, for further evaluation. Auditors reviewed these 479 students’ attendance profiles to determine if the enrollment data reported to ADE was accurate. Auditors compared the student profiles to SAIS to determine if the entry and exit dates were correct. 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.
- **SPED Data**— Auditors determined whether an adjusted student had also been funded for a special education category. Auditors calculated the special education adjustment based on the SPED category and service code and applied this adjustment to each respective student’s recalculated ADM and made appropriate adjustments to the funded ADM.
- **Limiting**—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited by ADE. No findings were identified for this area.

The Audit Unit expresses its appreciation to American Heritage Academy’s administration and staff members for their cooperation and assistance throughout the audit.



# FINDING 1: STUDENTS WERE NOT PROVIDED SUFFICIENT INSTRUCTIONAL HOURS

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The School did not provide the statutorily-required minimum number of instructional hours for some of its students in each of the three years audited. As a result, the School was overfunded \$30,703.48 in Basic State Aid. In accordance with A.R.S. § 15-915, ADE needs to recover these monies from the School. Additionally, the School needs to ensure its bell schedules and calendar compositions provide all of its students with at least the minimum number of statutorily-required instructional hours.

## The School Did Not Provide Students With Sufficient Instructional Hours

Although all public schools are required by statute to provide a minimum number of instructional hours to students, the School did not meet this requirement, resulting in an ADM overstatement of 5.33. Specifically, A.R.S. § 15-901 states that, for fourth, fifth, and sixth grade students, a full time program means the provision of at least 890 hours; however, the School did not meet these requirements. Table 2 shows the amount of instructional hours provided to grades 4, 5 and 6, as well as the percentage of the 890 annual instruction hour requirement met.

**Table 2**

**American Heritage Academy  
Instructional Hours and  
Percentage of the Requirement Met  
FY2014, FY2015 and 2016**

	FY2014		FY2015		FY2016	
	Hours	Percentage	Hours	Percentage	Hours	Percentage
<b>Camp Verde</b>	806.40	90.61%	808.80	90.88%	889.17	99.91%
<b>Cottonwood</b>	806.40	90.61%	889.17	99.91%	889.17	99.91%

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

## The School Must Ensure That All Students Meet the Required Instructional Hours

The School did not provide sufficient instructional hours for its students in FY2014, FY2015, and FY2016. According to A.R.S. § 15-901, codified by GE-18, annual instructional hour requirements for a full-time student in grades 4 through 6 are 890 hours and do not include periods of the day in which an instructional program or course of study is not being offered.

In the future, the School needs to comply with the requirements of A.R.S. § 15-901 and GE-18 to ensure all students are provided with at least the minimum number of statutorily-required instructional hours.

## The School Was Overfunded by \$30,703.48

As a result of providing insufficient instructional hours for students in FY2014, FY2015 and FY2016, the School's ADM was overstated, resulting in the School being overfunded. In FY2014, the School's ADM was overreported by 0.06, in FY2015 the School's ADM was overreported by 5.05, and in FY2016 the School's ADM was overreported by 0.23. In total, the School's ADM was overfunded by 5.33, which resulted in an overfunding of \$30,703.48 as shown in Table 3. According to A.R.S. § 15-915, ADE needs to recoup \$30,703.48 in overpaid Basic State Aid from the School for insufficient instructional hours for all three years.

**Table 3**

**American Heritage Academy  
ADM and Funding Adjustments  
Due to Insufficient Instructional Hours  
FY2014, 2015 and FY2016**

	ADM Overstated	Funding Adjustment
<b>FY2014</b>	0.06	\$405.02
<b>FY2015</b>	5.05	28,929.64
<b>FY2016</b>	<u>0.23</u>	<u>1,368.82</u>
<b>Total</b>	<b>5.33</b>	<b>\$30,703.48</b>

Source: Auditor analysis of ADE and School student data for FY2014, FY2015 and FY2016.

**Recommendations:**

1. The School must ensure that it provides all students with at least the statutorily-required minimum number of instructional hours.
2. The School must ensure it complies with A.R.S. § 15-901 and GE-18 when establishing its instructional program each year.
3. ADE needs to recover \$30,703.48 from the School due to a deficiency in the provision of annual instructional hours.

## **FINDING 2: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENTS' DATA RESULTING IN AN OVERFUNDING OF \$7,467.72**

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Auditors determined that the School inaccurately reported the student enrollment data for 20 students to ADE for the three fiscal years audited which resulted in the School's ADM being overstated by 0.73. This occurred because the School did not comply with statute and ADE guidelines when reporting student enrollment data to ADE. As a result, the District was overfunded by \$7,467.72 in Basic State Aid, which ADE must recover pursuant to A.R.S. § 15-915.

### **The School Did Not Accurately Report Some Students' Enrollment Data**

Auditors determined that the School inaccurately reported 20 students' enrollment data to ADE due to various errors, which resulted in the School's ADM being overstated by 0.73. 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 is the last day of actual attendance or excused absence. Additionally, the FTE status of a student must be reported according to A.R.S. § 15-901. However, the School did not always adhere to these requirements. Specifically:

- 11 students were reported with an incorrect FTE reported, which resulted in the School's ADM being overstated by 3.61.
- 6 students were reported with incorrect enrollment dates, which resulted in the School's ADM being overstated by 0.11.
- 3 students were not reported to ADE; however documentation showed the students had attended the School, which resulted in the School's ADM being understated by 3.00.

Of these students with adjustments, 20 students were reported with a SPED category, whose associated SPED adjustment resulted in an immaterial ADM misstatement. As shown in Table 4 (page 8), data reporting errors resulted in a net ADM overstatement of 0.73 for the three fiscal years audited.

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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 4**

**American Heritage Academy  
ADM Adjustments Due to Student Data Errors  
FY2014, FY2015 and FY2016**

	<b>Incorrect FTE</b>	<b>Incorrect Entry/Exit</b>	<b>Not in SAIS</b>	<b>Total</b>
<b>FY2014</b>	2.79	-	-	2.79
<b>FY2015</b>	-	0.07	-	0.07
<b>FY2016</b>	<u>0.82</u>	<u>0.04</u>	<u>(3.00)</u>	<u>(2.14)</u>
<b>Total</b>	<b>3.61</b>	<b>0.11</b>	<b>(3.00)</b>	<b>0.73</b>

Source: Auditor analysis of School records and ADE data for FY2014, FY2015 and FY2016.

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

The School can avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE by following statute and the ADE guidelines, as well as maintaining required documentation. In addition, the School should review the reports produced by ADE 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  
Overfunded by \$7,467.72**

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 fiscal years audited. The enrollment data errors reported by the School resulted in its ADM being overstated by 0.73. As a result, the School was overfunded by \$7,467.72 in Basic State Aid, which must be repaid by the School to ADE as required by A.R.S. § 15-915. As shown in Table 5 (page 9) the ADM and funding adjustments required for the fiscal years audited.

**Table 5**

**American Heritage Academy  
ADM and Funding Adjustments  
Due to Student Data Errors  
FY2014, FY2015 and FY2016**

	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>Total</b>
<b>ADM Adjustments</b>	2.79	0.07	(2.14)	0.73
<b>Funding Adjustments</b>	\$19,901.31	\$410.71	\$(12,844.30)	\$7,467.72

Source: Auditor analysis of School records and ADE data for FY2014, FY2015 and FY2016.

**Recommendations:**

1. ADE must recoup from the School \$7,467.72 in Basic State Aid due to incorrectly reported student enrollment data.
2. The School needs to ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.
3. The School must properly reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.
4. The School must comply with A.R.S. § 15-901 when reporting entry and exit dates to ADE.

# 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.*

**Budget capacity adjustment required**—The District must adjust its budget capacity for the three fiscal years audited. Budget capacity adjustment calculations for the District will be made by ADE once the audit is finalized.

**Basic State Aid adjustment of \$38,171.20 required to be repaid to ADE**—Auditors identified an overall funding decrease of \$38,171.20 for the three fiscal years audited due to insufficient instructional hours and inaccurate student enrollment data.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2014, FY2015 and FY2016.

**Table 6**

**American Heritage Academy  
ADM and Funding Adjustments Required for  
FY2014, FY2015 and FY2016**

	FY2014		FY2015		FY2016		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
<b>Funding Adjustment</b>	2.85	\$ 20,306.33	5.12	\$ 29,340.35	(1.91)	\$ (11,475.48)	\$38,171.20

Source: Auditor analysis of ADE and School student and financial data for FY2014, FY2015 and FY2016.