



## Arizona Department of Education

The Audit Unit  
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# Average Daily Membership Audit Report Pinnacle Education - Tempe, Inc. Fiscal Years 2015, 2016, and 2017

Report Number—18-17  
January 31, 2018



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Diane Douglas  
Superintendent of  
Public Instruction

January 31, 2018

Muhammad Padela, Vice President  
Pinnacle Education - Tempe, Inc.  
2224 W. Southern Avenue, Suite 1  
Tempe, AZ 85282

Dear Mr. Padela,

The Arizona Department of Education Audit Unit has conducted an audit of the Pinnacle Education - Tempe, Inc. (School) Average Daily Membership (ADM) for Fiscal Years 2015, 2016, and 2017. 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 accurately report some student enrollment data and some AOI student data for Fiscal Years 2015, 2016, and 2017, which resulted in an understatement of 33.53 ADM. As a result, the School was underfunded by \$88,163.70, which ADE must repay to the School.

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

Sincerely,

A handwritten signature in cursive script that reads "Tammy Seilheimer".

Tammy Seilheimer,  
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 Pinnacle Education - Tempe, 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 Fiscal Years 2015, 2016, and 2017.

***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's or charter school's information reported to ADE's Student Data System to information found on the original records kept at the school. If auditors find that the school district's 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 information**— The School has an AOI program and a high school located in Tempe, Arizona. In Fiscal Years 2015, 2016, and 2017, the School offered instruction in grades 6 through 12.

Table 1 presents the School’s unaudited student, staffing and financial information for Fiscal Years 2015, 2016, and 2017.

**Table 1**

**Pinnacle Education - Tempe, Inc.  
Total Students, Revenues and Expenditures  
Fiscal Years 2015, 2016, and 2017  
(Unaudited)**

	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Students Enrolled</b>	<b>327</b>	<b>431</b>	<b>598</b>
<b>Number of Teachers</b>	22	6	23
<b>Revenue</b>			
Local	3,457	1,675	38
County	-	-	-
State	3,822,547	5,669,760	6,860,361
Federal	-	-	-
<b>Total Revenues</b>	<b><u>3,826,004</u></b>	<b><u>5,671,435</u></b>	<b><u>6,860,399</u></b>
<b>Total Expenditures</b>	<b><u>2,215,542</u></b>	<b><u>2,672,253</u></b>	<b><u>3,373,407</u></b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Years 2015, 2016, and FY2017.

## 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 Fiscal Years 2015, 2016, and 2017.

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 School’s bell schedules and calendars for the fiscal years audited and determined that the School provided at least the minimum number of instructional hours as required by statute for each grade level.
- ***Enrollment data***—Auditors compared the School’s student management system to ADE’s system and identified 199 of the 484 students for further evaluation. Auditors reviewed these 199 student profiles to determine if the enrollment data reported to ADE was accurate. Auditors compared the student profiles to ADE’s information system to determine if the entry and exit date was 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.
- ***Arizona Online Instruction (AOI) data***– Auditors compared 100% of the Arizona Online Instruction data that was reported to ADE to the AOI data from the School for the fiscal years audited. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. If the data reported to ADE was incorrect, an adjustment was determined.
- ***Special Education (SPED) Data***—Auditors reviewed the students to determine if any were also funded for one of the special education categories. When students with a special education category also had an adjustment, auditors made an adjustment to the special education weight as well.
- ***Limiting***—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited. No findings were identified for this area.

Adjustments to ADM are based solely on those identified students that the auditors evaluated further and are not extrapolated to create findings for the entire student population.

The Audit Unit expresses its appreciation to the Pinnacle Education - Tempe, Inc.’s administration and staff members for their cooperation and assistance throughout the audit.

## **FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA, RESULTING IN AN OVERPAYMENT OF \$1,694.75**

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The School inaccurately reported the student enrollment data for 14 of its students for Fiscal Years 2015, 2016, and 2017. Specifically, auditors determined that 13 students had incorrect enrollment dates, and 1 student was reported to ADE's Student Data System for funding but did not attend. Finally, 7 of these students had additional SPED adjustments. In total, the School's ADM was overstated by 1.43 for its students for the three fiscal years audited. As a result, the School was overfunded by \$1,694.75, which the School must pay pursuant to A.R.S. § 15-915.

### **The School inaccurately reported some student enrollment data**

The School inaccurately reported the enrollment data for 14 students to ADE due to various errors, which resulted in the School's ADM being overreported by 1.43. ADE External Guideline and Procedures GE-17 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 FY2014 and thereafter, 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:

- 13 students had incorrect enrollment dates that were reported to ADE's Student Data System, which resulted in the School's ADM being overstated by 0.86.
- 1 student was reported to ADE's Student Data System; however, the student did not attend and no documentation showed the student as attending, which resulted in the School's ADM being overstated by 0.02.
- 7 students had additional Special Education adjustments, which resulted in the School's Special Education weighted ADM being overstated by 0.55.

As shown in Table 2, data reporting errors resulted in a net ADM overstatement of 1.43 for Fiscal Years 2015, 2016, and 2017.

**Table 2**

**Pinnacle Education - Tempe, Inc.  
ADM adjustments due to enrollment data errors  
Fiscal Years 2015, 2016, and 2017**

	ADM			
	<b>Incorrect Enrollment Dates</b>	<b>Did not Attend</b>	<b>SPED</b>	<b>Total</b>
2015	-	-	-	-
2016	0.76	0.02	0.55	1.33
2017	0.10	-	-	0.10
<b>Total</b>	<b>0.86</b>	<b>0.02</b>	<b>0.55</b>	<b>1.43</b>

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

**The School must properly reconcile its enrollment data with ADE**

The School can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE’s system. Additionally, the School must ensure that a process is in place that captures the proper entry and exit dates of students to ensure proper funding and reporting of data. The School should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE and reconcile them to the School’s SMS data to identify any discrepancies and correct any errors identified. The School should review its internal reporting practices and ensure that it properly documents the actual entry and exit dates of students pursuant to statute.

**The School was overfunded by \$1,694.75**

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 three years audited. As a result, the School was overfunded by \$1,694.75 in Basic State Aid, which the School must pay to ADE pursuant to A.R.S. § 15-915. Table 3 shows the ADM and funding adjustment due to enrollment data errors.

**Table 3**

**Pinnacle Education - Tempe, Inc.  
ADM and funding adjustments due to enrollment data errors  
Fiscal Years 2015, 2016, and 2017**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
ADM	-	1.33	0.10	1.43
Basic State Aid	\$ -	\$ 769.21	\$ 381.42	\$ 1,150.63
SPED	-	544.12	-	544.12
Total Funding Adjustments	<b>\$ -</b>	<b>\$ 1,313.33</b>	<b>\$ 381.42</b>	<b>\$ 1,694.75</b>

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

**Recommendations:**

1. The School must properly reconcile its data each year to ensure it complies with ADE External Guideline and Procedures GE-17 and A.R.S. § 15-901.
2. The School must pay ADE \$1,694.75 in Basic State Aid due to inaccurately reported enrollment data.

## **FINDING 2: THE SCHOOL DID NOT ACCURATELY REPORT SOME AOI DATA RESULTING IN AN UNDERPAYMENT OF \$89,858.45**

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The School did not accurately report enrollment data for 2,645 of 6,027 of its AOI students to ADE for all three fiscal years audited. Specifically, auditors found that 1864 students had been reported as part time but were actually full time students, 748 students were reported to ADE with incorrect AOI minutes, 16 students had been reported as full time but were actually part time students, 14 students' AOI minutes were not reported to ADE, and 3 students were reported to ADE but did not attend. Finally, 316 of these students had additional SPED adjustments. As a result, the School's weighted AOI ADM was understated by 34.96.

### **The School inaccurately reported some AOI data**

Auditors determined that student data for 2,645 of its AOI students was inaccurate, which resulted in the School's weighted AOI ADM being understated by 34.96 for the fiscal years audited, as follows:

- 1,864 students were incorrectly reported as part time and should have been reported as full time.
- 748 students were reported to ADE with incorrect AOI minutes.
- 16 students were incorrectly reported as full time and should have been reported as part time.
- 14 student's AOI minutes were not reported to ADE.
- 3 students were reported to ADE but did not attend.
- 316 students had additional Special Education adjustments.

As shown in Table 4, AOI data reporting errors resulted in a net weighted ADM understatement of 34.96 for the three fiscal years audited.

**Table 4**

**Pinnacle Education - Tempe, Inc.  
AOI ADM Adjustments  
Fiscal Years 2015, 2016, and 2017**

<b>Adjustments</b>	<b>AOI Weighted ADM Adjustment</b>			
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
Full Time	(223.77)	(329.36)	(388.11)	(941.24)
Part Time	235.15	315.73	357.48	908.36
SPED	0.54	(2.17)	(0.45)	(2.08)
<b>Total</b>	<b>11.92</b>	<b>(15.80)</b>	<b>(31.08)</b>	<b>(34.96)</b>

Source: Auditor analysis of School records and ADE's System data for Fiscal Years 2015, 2016, and 2017.

**The School must properly reconcile its enrollment data with ADE's system**

The School can likely avoid errors in the future by ensuring it regularly and correctly reconciles its data to the data contained in ADE's system. The School should review its reconciliation practices to ensure that its staff properly review the reports produced by ADE and reconcile them to the School's AOI SMS data to identify any discrepancies and correct any errors identified. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

**The School was underfunded by \$89,858.45**

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate AOI student data reported to ADE for the three fiscal years audited. The enrollment data errors reported by the School resulted in its ADM being understated by 34.96. As shown in Table 5, due to the understatement of 34.96 ADM for its AOI enrollment data, the School received an underpayment of \$89,858.45 in Basic State Aid for the three fiscal years audited, which the ADE must repay to the School pursuant to A.R.S. § 15-915.

**Table 5**

**Pinnacle Education - Tempe, Inc.  
AOI ADM and funding adjustments  
Fiscal Years 2015, 2016, and 2017**

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
Weighted ADM Adjustment	11.92	(15.80)	(31.08)	(34.96)
Total Funding Adjustment	\$ 47,498.27	\$ (15,589.06)	\$ (121,767.66)	\$ (89,858.45)

Source: Auditor analysis of School records and ADE's System data for Fiscal Years 2015, 2016, and 2017.

**Recommendations:**

1. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.
2. ADE must repay the School \$89,858.45 in Basic State Aid for the fiscal years audited for incorrect AOI enrollment data.

# 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 \$88,163.70 required to be paid to the School**—Auditors identified an overall funding increase of \$88,163.70 for the three fiscal years audited due to inaccurate student enrollment data, and insufficient instructional hours.

Table 6 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for Fiscal Years 2015, 2016, and 2017.

**Table 6**

**Pinnacle Education - Tempe, Inc.  
ADM and funding adjustments  
Fiscal Years 2015, 2016, and 2017**

	2015		2016		2017		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Enrollment Data	-	\$ -	1.33	\$ 1,313.33	0.10	\$ 381.42	\$ 1,694.75
AOI	<u>11.92</u>	<u>47,498.27</u>	<u>(15.80)</u>	\$ (15,589.06)	<u>(31.08)</u>	\$ (121,767.66)	\$ (89,858.45)
Total Funding Adjustment	<b>11.92</b>	<b>\$ 47,498.27</b>	<b>(14.47)</b>	<b>\$ (14,275.73)</b>	<b>(30.98)</b>	<b>\$ (121,386.24)</b>	<b>\$ (88,163.70)</b>

Source: Auditor analysis of School records and ADE’s System data for Fiscal Years 2015, 2016, and 2017.