



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report American Virtual Academy Fiscal Years 2016, 2017 and 2018

Report Number—19-23

January 25, 2019



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Department of Education

Kathy Hoffman
Superintendent of
Public Instruction

January 25, 2019

Damian Creamer, President
American Virtual Academy
2471 N. Arizona Ave.
Chandler, AZ 85225

Dear President Creamer:

The Arizona Department of Education Audit Unit has conducted an audit of the American Virtual Academy (School) Average Daily Membership (ADM) for fiscal years 2016, 2017 and 2018. 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 AOI data and some students were not properly limited for fiscal years 2016, 2017 and 2018, which resulted in an overstatement of 10.82 ADM. As a result, the School was overfunded by \$57,803.19, which must be repaid to ADE by the School pursuant to state law.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Melissa Moreno".

Melissa Moreno,
Chief Auditor

Kathy Hoffman, Superintendent of Public Instruction

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Introduction and background

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the American Virtual Academy (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 2016, 2017 and 2018.

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—In fiscal years 2016, 2017 and 2018, the School had one school, which was an Arizona Online Instruction (AOI) school. The School offered online instruction to grades 6 through 12.

Table 1 presents the School’s unaudited financial information for fiscal years 2016, 2017 and 2018.

Table 1
American Virtual Academy
Total students, revenues and expenditures
Fiscal years 2016, 2017 and 2018
(Unaudited)

	2016	2017	2018
Students	4,576	4,359	4,227
Teachers	125	94	95
Revenue			
Local	\$ 29,272	\$ 90,399	\$ 48,818
Intermediate	-	-	-
State	\$ 40,309,743	\$ 43,757,471	\$ 44,421,794
Federal	<u>\$ 343,518</u>	-	-
Total revenues	<u>\$ 40,682,533</u>	<u>\$ 43,847,870</u>	<u>\$ 44,470,612</u>
Total expenditures	<u>\$ 30,462,904</u>	<u>\$ 39,315,000</u>	<u>\$ 40,630,363</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2016, 2017 and 2018.

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 fiscal years 2016, 2017 and 2018.

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:

- ***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 all students over the three years audited. Auditors reviewed instructional time reported as well as the full or part time status that was reported for each student. When the data reported to ADE was incorrect, an adjustment was determined.
- ***SPED data***—Auditors determined whether an adjusted student had also been funded for a special education (SPED) category. When a student with a SPED category also had an adjustment, auditors also made an adjustment to the SPED weight.
- ***Limiting***—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited. Auditors found that some students were not properly limited.
- ***Student files***—Auditors reviewed student files to ensure that they maintained required documentation, including birth certificates, immunization, and residency documentation. Auditors did not identify material discrepancies in student file documentation.

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

FINDING 1: SOME AOI DATA WAS NOT ACCURATE, RESULTING IN AN OVERPAYMENT OF \$57,803.19

The student data for 560 students was incorrect for the three fiscal years audited. Specifically, auditors found that 91 students were reported as part time but should have been full time, 426 students were reported as full time but should have been part time and 18 students were reported with incorrect minutes. In addition, auditors found 25 students that were not properly limited. Of these affected students, 41 were special education (SPED) students with additional ADM weights. As a result of these errors, the School's AOI combined weighted ADM was overstated by 10.82. This led to the School being overfunded by \$57,803.19 in Basic State Aid for the three fiscal years audited, which the School must repay to ADE according to A.R.S. § 15-915.

The School inaccurately reported some AOI student data

Auditors determined that the student data for 535 of the AOI students was inaccurate. A.R.S. § 15-808 states that ADM is based on the required hours of instruction provided during the year. In addition, SF-0003 states that a full time AOI student must enroll in and participate in at least four classes during the year. Students that participate in less than four classes are considered part time. However, auditors found the School did not always meet these requirements. Specifically:

- 91 students were reported as part time and should have been reported as full time, resulting in a net weighted AOI ADM understatement of 6.07.
- 426 students were reported as full time and should have been reported as part time, resulting in a net weighted AOI ADM overstatement of 11.80.
- 18 students were reported to the ADE system with incorrect AOI minutes, resulting in a net weighted AOI ADM understatement of 1.28.
- 41 of the students identified also had a SPED category, which resulted in an additional weighted AOI ADM overstatement of 0.32.

As shown in Table 2 (page 5), these errors resulted in a net weighted ADM overstatement of 4.77 for the three fiscal years audited.

Table 2

**American Virtual Academy
AOI weighted ADM adjustments
Fiscal years 2016, 2017 and 2018**

Adjustments	AOI Weighted ADM Adjustment			
	2016	2017	2018	Total
Should have been full time	(0.56)	(2.71)	(2.80)	(6.07)
Should have been part time	11.42	0.16	0.22	11.80
Incorrect minutes	0.15	(0.80)	(0.63)	(1.28)
SPED	0.60	-	(0.28)	0.32
Total	11.61	(3.35)	(3.49)	4.77

Source: Auditor analysis of School records and ADE data for fiscal years 2016, 2017 and 2018.

Some AOI data was not limited properly

Auditors determined that the student data for 25 AOI students was not limited properly by ADE’s system. A.R.S. § 15-808 states that ADM is based on the required hours of instruction provided during the year, with a maximum of up to 1.0 ADM. However, auditors found the ADE’s system did not properly limit the ADM for 25 students to a maximum of 1.0 ADM. This resulted in an additional net weighted AOI ADM overstatement of 6.04.

The School must properly reconcile its AOI 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’s system and reconcile them to the School’s AOI SMS data to identify any discrepancies that would affect funding and correct any errors identified. In addition, the School can review classes students were enrolled in during the year to determine full or part time status according to SF-0003. 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 overfunded by \$57,803.19

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 and the improperly limited ADM for the three fiscal years audited. The enrollment data errors reported by the School and the students that were not properly limited resulted in its ADM being overstated by a total of 10.82. As a result, the School was overfunded by \$57,803.19 as shown in Table 3 which the School must pay to ADE pursuant to A.R.S. § 15-915.

Table 3

**American Virtual Academy
AOI ADM and funding adjustments
Fiscal years 2016, 2017 and 2018**

	2016	2017	2018	Total
Enrollment Data Errors	11.61	(3.35)	(3.49)	4.77
Improperly limited	-	5.26	0.78	6.04
Total ADM adjustment	11.61	1.91	(2.71)	10.82
Total funding adjustments	\$ 52,726.23	\$ 17,256.49	\$ (12,179.53)	\$ 57,803.19

Source: Auditor analysis of School records and ADE data for fiscal years 2016, 2017 and 2018.

Recommendations:

1. The School must repay ADE \$57,803.19 in Basic State Aid for the fiscal years audited for incorrect AOI enrollment data.
2. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

ADM AND FUNDING ADJUSTMENTS

A.R.S. § 15-915 requires that ADE makes corrections for audit findings to 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 \$57,803.19 required to be paid to ADE—Auditors identified an overall funding adjustment of \$57,803.19 for the three fiscal years audited due to inaccurate student enrollment data.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal year 2016, 2017 and 2018.

Table 4

**American Virtual Academy
ADM and funding adjustments
Fiscal years 2016, 2017 and 2018**

	2016	2017	2018	Total
Total weighted AOI ADM adjustment	11.61	1.91	(2.71)	10.82
Total funding adjustment	\$ 52,726.23	\$ 17,256.49	\$ (12,179.53)	\$ 57,803.19

Source: Auditor analysis of ADE and School student and financial data for fiscal years 2016, 2017 and 2018.