



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Leman Academy of Excellence, Inc. Fiscal Years 2017, 2018 and 2019

Report Number—21-09
September 18, 2020



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Arizona Department of Education

Audit Unit

September 18, 2020

Dennis O'Reilly, Head of Schools
Leman Academy of Excellence, Inc.
7720 N. Silverlight Rd.
Tucson, AZ 85743

Dear Mr. O'Reilly:

The Arizona Department of Education Audit Unit has conducted an audit of the Leman Academy of Excellence, Inc. (School) Average Daily Membership (ADM) for Fiscal Years 2017, 2018 and 2019. The purpose of the audit was to address whether the School properly reported student enrollment, and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School incorrectly reported the enrollment data, which resulted in its ADM being overstated by 0.91. Furthermore, the School misreported some AOI data, which resulted in its ADM being overstated by 0.03. As a result, the School was overfunded by \$8,004.19 which the School must repay to ADE. Additionally, auditors determined that the School failed to properly maintain some required documentation in student cumulative files.

We appreciate the cooperation and assistance provided by the School's administration during the course of 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 Lemman Academy of Excellence, Inc. (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 Fiscal Years (FY) 2017 through 2019.

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 Schools, located in Tucson, Mesa, Sierra Vista and Oro Valley, Arizona, offered instruction in grades K through 8 during the fiscal years audited. They operated six elementary schools and one AOI program. Table 1 presents the School’s unaudited student, staffing and financial information for FY 2017, FY 2018 and FY 2019.

Table 1

**Leman Academy of Excellence, Inc.
Total students, revenues and expenditures
Fiscal years 2017, 2018 and 2019
(Unaudited)**

	2017	2018	2019
Students enrolled	976	2,042	3,139
Number of teachers	43	112	164
Revenue			
Local	\$ 1,422,800	\$ 2,402,309	\$ 3,740,703
Intermediate	\$ -	\$ -	\$ -
State	\$ 5,874,419	\$ 13,344,140	\$ 20,593,145
Federal	\$ 158,040	\$ 301,795	\$ 354,995
Total revenues	\$ 7,455,259	\$ 16,048,244	\$ 24,688,843
Total expenditures	\$ 6,552,662	\$ 16,097,336	\$ 22,094,099

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2017, 2018 and 2019.

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 for Arizona Charter Schools (USFRCS) and its own policies and procedures for FY 2017, FY 2018 and FY 2019.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 647 of 6447 students over the three fiscal years audited. 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. Auditors also reviewed state statutes and School policies and procedures, and interviewed School management and staff. Specifically:

- **Enrollment data** – Auditors reviewed student schedules, enrollment histories and attendance data to determine if the enrollment data reported to ADE was correct. Auditors compared the entry and exit dates to determine if an adjustment was necessary. Auditors also reviewed absences to ensure that they were reported correctly and made adjustments if they were needed.
- **AOI data**—Auditors compared 100% of the Arizona Online Instruction data that was reported to ADE to the AOI data from the School. 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.
- **Student Files** – Auditors reviewed student files to ensure that they maintained required documentation such as birth certificates, immunization records, and supporting residency documentation. Auditors identified files that did not contain all the documentation that was required to be kept in them by statute and ADE guidelines.
- **Instructional hours** – Auditors reviewed the bell schedules and calendars for the School for FY 2017, FY 2018 and FY 2019. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited.
- **SPED Data** – Auditors determined whether an adjusted student had also been funded for a special education (SPED) category. No material findings were identified for this area.

- **Limiting**—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited by ADE’s system. No findings were identified for this area.

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 \$5,321.85

Auditors determined that the School inaccurately reported the student data for seven students for FY 2017 and FY 2018. Specifically, auditors found that four students had incorrect enrollment dates, two students had ten or more consecutive unexcused absences and one student had an incorrectly reported FTE. As a result of these errors, the Schools ADM was overreported by 0.91. As a result, the School was overfunded by \$5,321.85 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the School.

The School inaccurately reported some student data

The School inaccurately reported seven student's enrollment data to ADE, which resulted in the School's ADM being overstated by 0.91.

According to ADE External Guideline and Procedures GE-17 and A.R.S. § 15-901, with the exception of pre-enrolled students, the enrollment dates for a student are the first day of actual attendance and the last day of actual attendance or excused absence. In addition, pursuant to A.R.S. §15-901 (A)(2), students absent for ten (10) consecutive school days, except for excused absences, shall be withdrawn from the school. A.R.S. § 15-901 states that a part-time student will be funded as, "one-fourth, one-half or three-fourths of a full-time student if the student is enrolled in an instructional program that is at least one-fourth, one-half or three-fourths of the time a full-time student is enrolled." A student who does not meet these requirements is considered a part-time student and their FTE status must be reduced based on the number of actual instructional hours provided. However, the School did not always adhere to these requirements. Specifically, for the students that were sampled:

- 4 students were reported with incorrect enrollment dates. As a result, the ADM for the School was overreported by 0.035.
- 2 students were reported with ten or more consecutive unexcused absences. As a result, the School was overreported by 0.50.
- 1 student was reported with an incorrect FTE. As a result, the ADM for the School was overreported by 0.375.

As shown in Table 2 (page 6), data reporting errors resulted in an ADM overstatement of 0.91 for the three fiscal years audited.

Table 2

**Leman Academy of Excellence, Inc.
ADM adjustments due to enrollment data errors
Fiscal years 2017, 2018 and 2019**

	Incorrect Enrollment Dates	10-Day Absence	FTE	Total
2017	-	0.50	-	0.50
2018	0.035	-	0.375	0.410
2019	-	-	-	-
Total	<u>0.035</u>	<u>0.50</u>	<u>0.375</u>	<u>0.910</u>

Source: Auditor analysis of School records, ADE data for fiscal years 2017, 2018 and 2019.

The School failed to comply with statute and ADE guidelines

The School did not follow statute and ADE guidelines when calculating and reporting student FTE or student enrollment data.

The School misreported the enrollment data of four students. According 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. Additionally, the effective date of withdrawal shall be retroactive to the last day of actual attendance of the student or excused absence. The School incorrectly reported the entry or exit dates of four students.

The School failed to properly withdraw two students with ten or more consecutive unexcused absences. Pursuant to A.R.S. §15-901 (A)(2), students absent for ten (10) consecutive school days, except for excused absences, shall be withdrawn from the school. The School failed to withdraw two students with 10 unexcused absences in a row.

Auditors also determined that the School failed to correctly adjust the full time enrollment (FTE) status for one student. A.R.S. § 15-901 states that a part-time student will be funded as, “one-fourth, one-half or three-fourths of a full-time student if the student is enrolled in an instructional program that is at least one-fourth, one-half or three-fourths of the time a full-time student is enrolled.” The School failed to properly reduce the FTE for a student that was not enrolled full time. As a result, the School overreported the FTE for one student.

In the future, the School must ensure it complies with statute and ADE guidelines to properly calculate and report FTE and report student enrollments.

The School was overfunded by \$5,321.85

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate student data reported to ADE for FY 2017 and FY 2018. The student data incorrectly reported by the School resulted in its ADM being overstated by 0.91. As a result, the School was overfunded by \$5,321.85 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY 2017 and FY 2018.

Table 3

**Leman Academy of Excellence, Inc.
ADM and funding adjustments
Fiscal years 2017, 2018 and 2019**

	ADM Adjustment	Total
2017	0.50	\$3,014.31
2018	0.41	\$2,307.54
2019	-	-
Total	0.91	\$5,321.85

Source: Auditor analysis of School and ADE records for fiscal years 2017, 2018 and 2019.

Recommendations:

1. The School must repay to ADE \$5,321.85 in Basic State Aid due to incorrectly reported student data.
2. The School must ensure that it withdraws students with ten or more consecutive unexcused absences pursuant to A.R.S. §15-901 (A)(2).
3. The School needs to ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.
4. The School must reconcile to ensure that enrollment dates are reported accurately pursuant to A.R.S. § 15-901.

FINDING 2: THE SCHOOL DID NOT ACCURATELY REPORT AOI DATA RESULTING IN AN OVERPAYMENT OF \$2,682.34

The School did not accurately report enrollment data for 113 of its AOI students to ADE for fiscal years 2018 and 2019. Specifically, auditors found that 80 students were reported to ADE's System with incorrect minutes, 10 students had been reported as full time but were part time, 16 students had been reported as part time but were full time, three students were reported but did not attend and four students attended but were not reported. As a result, the School's weighted AOI ADM was overstated by 0.03. This led to the School being overfunded by \$2,682.34 which ADE must recoup from the School according to A.R.S. § 15-915.

The School inaccurately reported some AOI data

Auditors determined that student data for 113 of its AOI students was inaccurate, which resulted in the School's weighted AOI ADM being overstated by 0.03 for fiscal years 2018 and 2019. According to A.R.S. § 15-808, AOI ADM is based on the number of minutes a student participates in the AOI during the year. In addition, SF-0003 states that full time AOI students must enroll in and participate in four or more classes during the year. If a student is enrolled in fewer than four classes, they should be reported as part time. However, the School did not always meet these requirements as follows:

- 80 students were reported to ADE'S System with incorrect AOI minutes.
- 16 students were incorrectly reported as part time and should have been reported as full time.
- 10 students were incorrectly reported as full time and should have been reported as part time.
- 4 students attended the School but were not reported to ADE.
- 3 students were reported to ADE, but documentation showed they did not actually attend the School.

As shown in Table 4, AOI data reporting errors resulted in a net weighted AOI ADM overstatement of 0.03 for fiscal years 2018 and 2019.

Table 4

**Leman Academy of Excellence, Inc.
Weighted AOI ADM adjustments
Fiscal years 2018 and 2019**

Adjustments	2018	2019	Total
Full time	(0.59)	(3.50)	(4.09)
Part time	(0.44)	4.56	4.12
Total	(1.03)	1.06	0.03

Source: Auditor analysis of Charter records and ADE data for fiscal years 2018 and 2019.

The School must properly reconcile its enrollment data with ADE data

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 and reconcile them to the School’s AOI SMS data to identify any discrepancies that would affect funding 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 overfunded by \$2,682.34

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 FY 2018 and FY 2019. The student data incorrectly reported by the School resulted in its weighted AOI ADM being overstated by 0.03. As a result, the School was overfunded by \$2,682.34 in Basic State Aid in FY 2018 and FY 2019, which ADE must recoup from the School. Table 5 (page 10), shows the ADM and funding adjustments required for the School for FY 2018 and FY 2019 pursuant to A.R.S. § 15-915.

Table 5

**Leman Academy of Excellence, Inc.
ADM and funding adjustments due to AOI data errors
Fiscal years 2018 and 2019**

	Weighted AOI ADM Adjustment	Total
2018	(1.03)	(\$5,786.02)
2019	1.06	\$8,468.36
Total	0.03	\$2,682.34

Source: Auditor analysis of Charter and ADE records for fiscal years 2018 and 2019.

Recommendations:

1. The School must repay ADE \$2,682.34 in Basic State Aid for the fiscal year audited for incorrect AOI data.
2. The School must comply with the requirements of A.R.S. § 15-808 and SF-0003 when calculating and reporting AOI students.

FINDING 3: THE SCHOOL DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE

Auditors determined that the District failed to properly maintain residency, birth certificate and immunization documentation for some students as required by statute and ADE guidelines. The District did not properly maintain required documentation in some of its student cumulative files. In the future, the District should properly maintain these documents to ensure compliance with statute and ADE guidelines.

The School did not properly maintain student file documentation

Auditors determined that the School failed to maintain residency documentation for some students as required by statute and ADE guidelines. According to A.R.S. § 15-802 and the ADE Arizona Residency Guideline, school districts and charter schools are required to maintain verifiable documentation of Arizona residency in the student's cumulative file. This documentation must be provided each time a student enrolls in a school district or charter school and reaffirmed during the annual registration process. The ADE Arizona Residency Guideline identifies an approved list of options a parent or legal guardian may provide to the school district or charter school to meet these requirements.

Auditors also determined that the District failed to maintain birth certificate documentation for some students as required by statute. According to A.R.S. § 15-828, a photocopy of the student's birth certificate or other reliable proof of the student's identity and age must be placed in the student's file.

In addition, auditors determined that the District failed to maintain immunization documentation for some students as required by statute. According to A.R.S. § 15-872, "A pupil shall not be allowed to attend school without submitting documentary proof to the school administrator unless the pupil is exempted from immunization pursuant to section 15-873."

The School did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 75 students sampled, 20 of the student files did not have the proper residency documentation, 39 of the student files lacked evidence that residency was correctly reaffirmed, five student files did not have a birth certificate in their file and four students did not have immunization record documentation in their file. Table 6 (page 12) lists the student file documentation maintained by the School for FY 2017, FY 2018 and FY 2019.

Table 6

**Leman Academy of Excellence, Inc.
Student cumulative file documentation
Fiscal years 2017, 2018 and 2019**

	Total Sampled	Missing Residency Documentation	Residency Not Reaffirmed	Missing Birth Certificate	Missing Immunization
2017	25	14	14	3	1
2018	25	2	12	2	2
2019	25	4	13	0	1
Total	<u>75</u>	<u>20</u>	<u>39</u>	<u>5</u>	<u>4</u>

Source: Auditor analysis of Charter records for fiscal years 2017, 2018 and 2019.

In the future, the School must ensure that it complies with statute by collecting and maintaining in each student's cumulative file copies of verifiable residency as required by law.

Recommendations:

1. The District must comply with statute and collect and maintain in each student's cumulative file copies of verifiable residency, birth certificate and immunization documentation as required by law.
2. The District must properly reaffirm Arizona residency during the annual registration process and maintain evidence of this process.

ADM AND FUNDING ADJUSTMENTS

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 2013 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 \$8,004.19 required to be paid to ADE—Auditors identified an overall funding adjustment of \$8,004.19 for the three fiscal years audited due to inaccurate student enrollment and AOI data.

Table 7 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal years 2017, 2018 and 2019.

Table 7

**Leman Academy of Excellence, Inc.
ADM and funding adjustments
Fiscal years 2017, 2018 and 2019**

	2017		2018		2019		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Inaccurate enrollment data	0.50	\$3,014.31	0.41	\$2,307.54	-	-	\$5,321.85
AOI	-	-	(1.03)	(\$5,786.02)	1.06	\$8,468.36	\$2,682.34
Total funding adjustment	0.50	\$3,014.31	(0.62)	(3,478.48)	1.06	\$8,468.36	\$8,004.19

Source: Auditor analysis of ADE and Charter student and financial data for fiscal years 2017, 2018 and 2019.