



## Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

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# Average Daily Membership Audit Report Heritage Academy Laveen, Inc. Fiscal Years 2018, 2019 and 2020

Report Number—21-31

March 12, 2021



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## Arizona Department of Education

### Audit Unit

March 12, 2020

Jared Taylor, Business Manager  
Heritage Academy Laveen, Inc.  
32 S. Center St  
Mesa, AZ 85210

Dear Mr. Jared Taylor:

The Arizona Department of Education Audit Unit has conducted an audit of the Heritage Academy Laveen, Inc. (School) Average Daily Membership (ADM) for Fiscal Years 2018, 2019 and 2020. 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 full-time enrollment (FTE) of 61 students, which resulted in its ADM being overstated by 56.53. As a result, the School was overfunded by \$400,081.83 which the School must repay to ADE.

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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# TABLE OF CONTENTS

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	<u>Page</u>
<b>Introduction and background .....</b>	<b>1</b>
<b>Scope and methodology.....</b>	<b>3</b>
<b>Finding 1: The School did not accurately report some student data, resulting in an overpayment of \$400,081.83.....</b>	<b>5</b>
The School inaccurately reported some student data .....	5
The School failed to comply with statute and ADE guidelines .....	6
The School was overfunded by \$400,081.83.....	7
Recommendations .....	7
<b>ADM and funding adjustments .....</b>	<b>8</b>

# TABLE OF CONTENTS (CONT'D)

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	<u>Page</u>
<b>Tables:</b>	
1 Heritage Academy Laveen, Inc. Total students, revenues, and expenditures Fiscal years 2018, 2019 and 2020 (Unaudited) .....	2
2 Heritage Academy Laveen, Inc. ADM adjustments due to enrollment data errors Fiscal years 2018, 2019 and 2020 .....	6
3 Heritage Academy Laveen, Inc. ADM and funding adjustments Fiscal years 2018, 2019 and 2020 .....	7
4 Heritage Academy Laveen, Inc. ADM and funding adjustments Fiscal years 2018, 2019 and 2020 .....	8

# 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 Heritage Academy Laveen, 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) 2018 through 2020.

**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, located in Laveen, Arizona, offered instruction in grades 7 through 12 during the fiscal years audited. They had one school. Table 1 presents the School’s unaudited student, staffing and financial information for FY2018, FY2019 and FY2020.

**Table 1**

**Heritage Academy Laveen, Inc.  
Total students, revenues, and expenditures  
Fiscal years 2018, 2019 and 2020  
(Unaudited)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Students enrolled</b>	<b>444</b>	<b>475</b>	<b>568</b>
<b>Number of teachers</b>	<b>38</b>	<b>34</b>	<b>37</b>
<b>Revenue</b>			
Local	\$127,299.00	\$188,356.00	\$254,940.00
Intermediate	\$0	\$0	\$0
State	\$3,363,656.00	\$3,650,009.00	\$4,449,925.00
Federal	\$58,318.00	\$53,918.00	\$0
<b>Total revenues</b>	<b>\$ 3,549,273.00</b>	<b>\$ 3,892,283.00</b>	<b>\$4,704,865.00</b>
<b>Total expenditures</b>	<b>\$ 3,204,825.00</b>	<b>\$3,733,971.00</b>	<b>\$ 4,051,234.00</b>

Source: Annual Report of the Arizona Superintendent of Public Instruction for fiscal years 2018, 2019 and 2020.

## 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 FY2018, FY2019 and FY2020.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 301 of 1,619 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. No findings were identified for this area.
- **Student Files** – Auditors reviewed student files to ensure that they maintained required documentation such as birth certificates, immunization records, and supporting residency documentation. No material findings were identified for this area.
- **FTE calculations** – Auditors reviewed the bell schedules and student schedules to determine whether the School reported the correct full-time enrollment (FTE) data to ADE. Auditors calculated the FTE based on the classes and time a student was enrolled in the School and compared the FTE to what was reported to ADE. When the FTE was incorrect, auditors made an adjustment.
- **Instructional hours** – Auditors reviewed the bell schedules and calendars for the School for FY2018, FY2019 and FY2020. No findings were identified for this area.
- **SPED Data** – Auditors determined whether an adjusted student had also been funded for a special education (SPED) category. 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 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 \$400,081.83**

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Auditors determined that the School inaccurately reported the student data for 61 students for FY2018 and FY2019. Specifically, auditors found that classes for the high school students were under 123 hours, resulting in 61 students' FTE being reported incorrectly in fiscal years 2018 and 2019. Three of the students that had data reported incorrectly were also funded with a SPED category. As a result of these errors, the School's ADM was overreported by 56.53. As a result, the School was overfunded by \$400,081.83 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 61 students' FTE status to ADE, which resulted in the School's ADM being overstated by 56.53.

According to A.R.S. § 15-901, for a high school student to be reported as a 1.0 FTE, the student must be enrolled in at least four subjects which meet at least 123 hours annually each and total at least 720 instructional hours for the year. 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 and courses enrolled. However, the School did not always adhere to these requirements. Specifically, for the students that were sampled:

- Auditors found that classes for the high school students were under 123 hours, resulting in 61 students' FTE being reported incorrectly in fiscal years 2018 and 2019. As a result, the ADM for the School was overreported by 56.51.
- Three of the students that had data reported incorrectly were also funded with a SPED category, as a result, the weighted SPED ADM for the School was overreported by 0.02.

As shown in Table 2, data reporting errors resulted in an ADM overstatement 56.53 for the three fiscal years audited.

**Table 2**

**Heritage Academy Laveen, Inc.  
ADM adjustments due to enrollment data errors  
Fiscal years 2018, 2019 and 2020**

	<b>Incorrect FTE</b>	<b>SPED</b>	<b>Total</b>
2018	34.50	0.01	34.51
2019	22.01	0.01	22.02
2020	-	-	-
<b>Total</b>	<b><u>56.51</u></b>	<b><u>0.02</u></b>	<b><u>56.53</u></b>

Source: Auditor analysis of School records, ADE data for fiscal years 2018, 2019 and 2020.

**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.

According to analysis of the FY 2018 and FY 2019 bell schedule and calendar, auditors determined that the School offered students a block schedule with A and B days, with 4 classes offered during each time. Auditors determined that a class would provide 108-120 hours of instruction per course, which is less than the 123 hours required per A.R.S. § 15-901 to be considered a subject towards FTE. As a result, the School overreported the FTE for 61 students in FY 2018 and FY 2019.

Due to the school closures at the end of FY 2020, since the School provided general educational opportunities to students through the end of the school year, they were considered in compliance for instructional hours for classes (H.B. 2910, Section 1 Paragraph C(1)). Therefore, the evaluation of FTE for this year was based on the number of subjects provided. If a student was enrolled in at least four subjects they were a 1.0 FTE, three subjects they were a 0.75 FTE, two subjects they were a 0.50 FTE and one subject would be a 0.25 FTE. No adjustments were identified for FY 2020.

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

## The School was overfunded by \$400,081.83

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 FY2018, FY2019 and FY2020. The student data incorrectly reported by the School resulted in its ADM being overstated by 56.53. As a result, the School was overfunded by \$400,081.83 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY2018, FY2019 and FY2020.

**Table 3**

**Heritage Academy Laveen, Inc.  
ADM and funding adjustments  
Fiscal years 2018, 2019 and 2020**

	<b>ADM Adjustment</b>	<b>Total</b>
2018	34.51	\$239,634.68
2019	22.02	\$160,447.15
2020	-	-
<b>Total</b>	<b>56.53</b>	<b>\$400,081.83</b>

Source: Auditor analysis of School and ADE records for fiscal years 2018, 2019 and 2020.

### Recommendations:

1. The School must repay to ADE \$400,081.83 in Basic State Aid due to incorrectly reported student data.
2. The School needs to ensure that it properly calculates and reports students' FTE pursuant to statute and ADE guidelines.

# 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 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 \$400,081.83 required to be paid to ADE** Auditors identified an overall funding adjustment of \$400,081.83 for the three fiscal years audited due to inaccurate student enrollment.

Table 4 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for fiscal years 2018, 2019 and 2020.

**Table 4**

**Heritage Academy Laveen, Inc.  
ADM and funding adjustments  
Fiscal years 2018, 2019 and 2020**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
ADM	34.51	22.02	-	56.53
<b>Total funding adjustment</b>	<b>\$239,634.68</b>	<b>\$160,447.15</b>	-	<b>\$400,081.83</b>

Source: Auditor analysis of ADE and School student and financial data for fiscal years 2018, 2019 and 2020.