



Arizona Department of Education

The Audit Unit

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Phoenix, Arizona 85007

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Average Daily Membership Audit Report Valor Preparatory Academy, LLC Fiscal Years 2020, 2021 and 2022

Report Number—23-28

March 15, 2023



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Arizona Department of Education

Audit Unit

March 15, 2023

Principal Dan Mahlandt
Valor Preparatory Academy, LLC.
13185 W. Thomas Rd
Goodyear, AZ 85395

Dear Principal Dan Mahlandt:

The Arizona Department of Education Audit Unit has conducted an audit of the Valor Preparatory Academy, LLC. (School) Average Daily Membership (ADM) for Fiscal Years 2020, 2021 and 2022. 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 Arizona Online Instruction (AOI) data of 71 students, which resulted in its ADM being overstated by 8.25. As a result, the School was overfunded by \$67,891.71 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

Tom Horne, 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 Valor Preparatory Academy, LLC. (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) 2020 through 2022.

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 Goodyear, Arizona, offered AOI instruction in grades 6 through 12 during the fiscal years audited. Table 1 presents the School’s unaudited student, staffing and financial information for FY2020, FY2021 and FY2022.

Table 1

**Valor Preparatory Academy, LLC.
Total students, revenues and expenditures
Fiscal years 2020, 2021 and 2022
(Unaudited)**

	2020	2021	2022
Students enrolled	14	84	114
Number of teachers	4	7	7
Revenue			
Local	\$ 300,000	\$ 420,534	\$ 170,202
Intermediate	\$ 0	\$ 0	\$ 0
State	\$ 143,992	\$ 772,801	\$ 1,205,427
Federal	\$ 0	\$ 63,332	\$ 190,940
Total revenues	<u>\$ 443,992</u>	<u>\$ 1,256,667</u>	<u>\$ 1,566,569</u>
Total expenditures	<u>\$ 293,727</u>	<u>\$ 1,246,548</u>	<u>\$ 1,402,772</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2020, FY2021 and FY2022.

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 FY2020, FY2021 and FY2022.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 308 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:

- **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.
- **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 AOI DATA RESULTING IN AN OVERPAYMENT OF \$67,891.71

The School did not accurately report enrollment data for 71 of its AOI students to ADE for FY2020, FY2021 and FY2022. Specifically, auditors found that 64 students were reported to ADE's System with incorrect minutes, six students had been reported as full time but were part time and one student was reported but did not attend. In addition, 11 of these students that had data reported incorrectly were also funded with a SPED category. As a result of these errors, the School's weighted AOI ADM was overstated by 8.25. This led to the School being overfunded by \$67,891.71 which the School must pay to the ADE according to A.R.S. § 15-915.

The School inaccurately reported some AOI enrollment data

Auditors determined that student data for 71 of its AOI students was inaccurate, which resulted in the School's weighted AOI ADM being overstated by 8.25 for FY2020, FY2021 and FY2022. 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:

- 64 students were reported to ADE'S System with incorrect AOI minutes.
- 6 students were incorrectly reported as full time and should have been reported as part time.
- 1 student was reported to ADE, but documentation showed they did not actually attend the School.
- 11 students that were identified with an adjustment also had a SPED weight.

As shown in Table 2, AOI data reporting errors resulted in a net weighted ADM overstatement of 8.25 for FY2020, FY2021 and FY2022.

Table 2

**Valor Preparatory Academy LLC.
AOI ADM Adjustments
Fiscal years 2020, 2021 and 2022**

Adjustments	2020	2021	2022	Total
Full time	0.11	7.90	0.96	8.97
Part time	0.00	0.00	(0.87)	(0.87)
SPED	0.00	0.15	0.00	0.15
Total	0.11	8.05	0.09	8.25

Source: Auditor analysis of School records and ADE data for fiscal years 2020, 2021 and 2022.

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 by 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 \$67,891.71

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 FY2020, FY2021 and FY2022. The student data incorrectly reported by the School resulted in its ADM being overstated by 8.25. As a result, the School was overfunded by \$67,891.71 in Basic State Aid, which ADE must recoup from the School. Table 3 shows the ADM and funding adjustments required for the School for FY2020, FY2021 and FY2022.

Table 3

**Valor Preparatory Academy LLC.
ADM and funding adjustments
Fiscal years 2020, 2021 and 2022**

	ADM Adjustment	Total
2020	0.11	\$848.96
2021	8.05	\$66,490.52
2022	0.09	\$552.23
Total	8.25	\$67,891.71

Source: Auditor analysis of School and ADE records for fiscal years 2020, 2021 and 2022.

Recommendations:

1. The School must repay ADE \$67,891.71 in Basic State Aid for the fiscal year 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.

FINDING 2: THE SCHOOL DID NOT PROPERLY MAINTAIN SOME STUDENT RECORDS AS REQUIRED BY STATUTE AND GUIDELINE

Auditors determined that the School failed to properly maintain residency and birth certificate for some students as required by statute and ADE guidelines. The School did not properly maintain required documentation in some of its student cumulative files. In the future, the School 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. § 15-823 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 School failed to maintain birth certificate documentation for some students as required by statute. According to A.R.S. § 15-828, the student file must contain a photocopy of the student's birth certificate, other reliable proof of the student's identity and age and an affidavit explaining the inability to provide a birth certificate, or a letter from an authorized agency with custody of the student.

The School did not maintain the proper documentation required by statute and ADE's residency guideline. Of the 128 students sampled, five of the student files did not have the proper residency documentation, three of the student files did not have the residency reaffirmed annually and two did not have a birth certificate in their file. Table 4 lists the student file documentation maintained by the School for FY2020, FY2021 and FY2022.

Table 4

**Valor Preparatory Academy, LLC.
Student cumulative file documentation
Fiscal years 2020, 2021 and 2022**

	Total Sampled	Missing Residency Documentation	Residency not Reaffirmed	Missing Birth Certificate
2020	29	3	-	1
2021	50	1	1	-
2022	49	1	2	1
Total	<u>128</u>	<u>5</u>	<u>3</u>	<u>2</u>

Source: Auditor analysis of School records for FY2020, FY2021 and FY2022.

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 and birth certificate documentation as required by law.

Recommendation:

1. The School must comply with statute by collecting and maintaining in each student's cumulative file copies of verifiable residency and birth certificate documentation as required by law.

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 \$67,891.71 required to be paid to ADE—Auditors identified an overall funding adjustment of \$67,891.71 for the three fiscal years audited due to inaccurate AOI data.

Table 5 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2020, FY2021 and FY2022.

Table 5

**Valor Preparatory Academy, LLC.
ADM and funding adjustments
Fiscal years 2020, 2021 and 2022**

	2020	2021	2022	Total
ADM adjustment	0.11	8.05	0.09	8.25
Funding adjustment	\$848.96	\$66,490.52	\$552.23	\$67,891.71

Source: Auditor analysis of ADE and School student and financial data for FY2020, FY2021 and FY2022.