



## 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 E-Institute Charter Schools, Inc. Fiscal Years 2020, 2021 and 2022

Report Number—24-15

November 29, 2023



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## Arizona Department of Education

### Audit Unit

November 29, 2023

Timothy Smith, Executive Director  
E-Institute Charter Schools, Inc.  
4744 W Grovers Ave  
Glendale, AZ 85308

Dear Executive Director Smith:

The Arizona Department of Education Audit Unit has conducted an audit of the E-Institute Charter Schools, Inc (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 enrollment data of 50 students, which resulted in its ADM being overstated by 5.77. For AOI, auditors determined that student data for 232 students was inaccurate, which resulted in the School's AOI ADM being understated by 9.65. As a net result, the School was underfunded by \$31,847.70 which the School must recoup from 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,

*Angel Santiago*

Angel Santiago,  
Chief Auditor

**Tom Horne, Superintendent of Public Instruction**

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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 E-Institute Charter Schools, 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) 2020 through 2022.

***Average Daily Membership audits of School 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 Schools and charter schools. School Schools and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school Schools 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 School'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 School'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 School'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 Glendale, Arizona, offered instruction in grades 9 through 12 during the fiscal years audited. They had six high schools and one AOI. Table 1 presents the School’s unaudited student, staffing and financial information for FY2020, FY2021 and FY2022.

**Table 1**

**E-Institute Charter Schools, Inc.  
Total students, revenues, and expenditures  
Fiscal years 2020, 2021 and 2022  
(Unaudited)**

	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Students enrolled</b>	<b>608</b>	<b>484</b>	<b>712</b>
<b>Number of teachers</b>	<b>16</b>	<b>19</b>	<b>19</b>
<b>Revenue</b>			
Local	\$16,976	\$6,558	\$12,062
Intermediate	\$0	\$0	\$0
State	\$4,729,344	\$4,398,711	\$6,648,335
Federal	\$685,059	\$849,943	\$404,276
<b>Total revenues</b>	<b><u>\$5,431,379</u></b>	<b><u>\$5,255,212</u></b>	<b><u>\$7,064,673</u></b>
<b>Total expenditures</b>	<b><u>\$5,052,913</u></b>	<b><u>\$6,123,831</u></b>	<b><u>\$6,265,654</u></b>

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

## 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 FY2020, FY2021 and FY2022.

To conduct this audit, auditors used a variety of methods, including examining School and ADE records to review 300 of 1,865 students and 1,899 AOI 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.
- **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.
- **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 FY2020, FY2021 and FY2022. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited.



- ***Distance Learning Plans*** – Auditors reviewed the Distance Learning Plans (DLP) for FY2021 that were used to provide education to students. In addition, auditors reviewed the percentage of learning that was distance learning or in person to determine if this was reported correctly. No findings were identified for this area.
- ***Instructional Time Model (ITM)*** – Auditors reviewed the ITM that was in place for FY2022 that was used to provide education to students. Auditors determined if the ITM contained the required elements as well as sufficient detail to be properly implemented. Auditors determined that the ITM had the required elements and was sufficiently detailed.
- ***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 \$23,840.35**

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Auditors determined that the School inaccurately reported the student data for 50 students for FY2020, FY2021 and FY2022. Specifically, auditors found that 28 students had an incorrectly reported FTE, 11 students had 10 consecutive unexcused absences and were not withdrawn, five students had not attended the School, four students had attended the School but were not reported to ADE, one student had excessive absences and incurred a non-fundable ADM interval, and one student was not properly funded due to failing integrity. As a result of these errors, the School's ADM was overreported by 5.78. As a result, the School was overfunded by \$23,840.35 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 50 students' enrollment data to ADE, which resulted in the School's ADM being overstated by 5.77.

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.<sup>1</sup> In addition, 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. Finally, A.R.S. § 15- 901 states that a student with 10 consecutive unexcused absences must be withdrawn, and School Finance Manual (G) states that students who have reached the 10% threshold for cumulative absences (excused or unexcused) based on the number of instructional calendar days at their school and incur 10 or more consecutive absences will generate non-fundable ADM intervals. However, the School did not always adhere to these requirements. Specifically, for the students that were sampled:

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<sup>1</sup> Pursuant to A.R.S. § 15-901, a full time student (1.0 FTE) in grades 9 through 12 must be scheduled for and attending at least 720 hours of instruction and at least four subjects each of which meets for at least 123 hours annually; a 0.75 FTE student must be scheduled for at least 540 hours of instruction and at least three subjects each of which meets for at least 123 hours annually, a 0.50 FTE student must be scheduled for at least 360 hours of instruction and at least two subjects each of which meets for at least 123 hours annually and a 0.25 FTE student must be scheduled for at least 180 hours of instruction and at least one subject which meets for at least 123 hours annually.

- 28 students had an incorrect FTE reported. As a result, the ADM for the School was overreported by 3.91.
- 11 students had 10 consecutive unexcused absences and should have been withdrawn. As a result, the ADM for the School was overreported by 3.18.
- 5 students were reported as attended but did not actually attend the School. As a result, the ADM for the School was overreported by 0.30.
- 4 students attended the School but were not reported and funded as being enrolled in the School. As a result, the ADM for the School was underreported by 1.37.
- 1 student had excessive absences which resulted in a non-fundable ADM interval. As a result, the ADM for the School was overreported by 0.08.
- 1 student was not funded due to failing integrity. As a result, the ADM for the School was underreported by 0.33.

As shown in Table 2, data reporting errors resulted in an ADM overstatement of 5.77 for the three fiscal years audited.

**Table 2**

**E-Institute Charter Schools, Inc.  
ADM adjustments due to enrollment data errors  
Fiscal years 2020, 2021 and 2022**

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
Incorrect FTE	3.86	0.05	-	3.91
10-day absence	0.72	2.30	0.16	3.18
Did not attend	0.20	-	0.10	0.30
Attended	(0.72)	-	(0.65)	(1.37)
Excessive absences	0.08	-	-	0.08
Integrity Error	-	(0.33)	-	(0.33)
<b>Total</b>	<b><u>4.14</u></b>	<b><u>2.02</u></b>	<b><u>(0.39)</u></b>	<b><u>5.77</u></b>

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

## **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.

Auditors determined that 28 of the School's students did not meet the statutory and ADE guideline requirements for full time enrollment (FTE). According to analysis of the School's bell schedule and calendar for the School's high school, auditors determined that as long as a student was enrolled in 4 courses each semester for FY2020, FY2021 and FY2022, they would receive enough hours and courses to be considered full time. However, the FTE that was reported for 28 students was not correct based on the number of courses the students were enrolled in. As a result, the School overreported the FTE for 28 students.

Additionally, the School misreported the enrollment data of 22 students. According to ARS § 15-901 and ADE guidelines, ADM is based on the first 100 days of the school year, using the enrollment date and the withdrawal date of the student. Further, A.R.S. § 15- 901 states that a student with 10 consecutive unexcused absences must be withdrawn, and School Finance Manual (G) states that students who have reached the 10% threshold for cumulative absences and incur 10 or more consecutive absences will generate non-fundable ADM intervals. The School did not withdraw 11 students with 10 or more consecutive unexcused absences, five students were reported to ADE that did not attend, four students were not reported to ADE, generated a non-fundable ADM interval for one student with excessive absences and one student was not funded due to failing integrity.

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

## **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 was overfunded by \$23,840.35**

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 FY2020, FY2021 and FY2022. The student data incorrectly reported by the School resulted in its ADM being overstated by 5.77. As a result, the School was overfunded by \$23,840.35 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**

**E-Institute Charter Schools, Inc.  
ADM and funding adjustments  
Fiscal years 2020, 2021 and 2022**

	<b>ADM Adjustment</b>	<b>Total</b>
2020	4.14	\$10,403.96
2021	2.02	\$16,449.09
2022	(0.39)	\$(3,012.70)
<b>Total</b>	<b>5.77</b>	<b>\$23,840.35</b>

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

**Recommendations:**

1. The School must repay to ADE \$23,840.35 in Basic State Aid due to incorrectly reported student data.
2. The School needs to ensure that it properly reports students' FTE pursuant to statute and ADE guidelines.
3. The School must reconcile to ensure that enrollment dates and attendance data are reported accurately pursuant to A.R.S. § 15-901.

## **FINDING 2: THE SCHOOL DID NOT ACCURATELY REPORT AOI DATA RESULTING IN AN UNDERPAYMENT OF \$55,688.06**

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The School did not accurately report enrollment data for 232 of its AOI students to ADE for FY2020, FY2021 and FY2022. Specifically, auditors found that 146 students were reported to ADE's data system with incorrect minutes, 80 students had been reported as part time but were full time and six students were not reported to ADE. As a result, the School's weighted AOI ADM was understated by 9.65. This led to the School being underfunded by \$55,688.06 which ADE must repay to the School according to A.R.S. § 15-915.

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

Auditors determined that student data for 232 of its AOI students was inaccurate, which resulted in the School's weighted AOI ADM being understated by 9.65 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:

- 146 students were reported to ADE's data system with incorrect AOI minutes.
- 80 students were incorrectly reported as part time and should have been reported as full time.
- 6 students were not reported to ADE.

As shown in Table 4 (page 10), AOI data reporting errors resulted in a net weighted ADM understatement of 9.65 for the fiscal years audited.

**Table 4**

**E-Institute Charter Schools, Inc.  
AOI ADM Adjustments  
Fiscal years 2020, 2021 and 2022**

<b>Adjustments</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Total</b>
Full time	(8.79)	(1.28)	(5.96)	(16.03)
Part time	4.99	0.43	0.96	6.38
<b>Total</b>	<b>(3.80)</b>	<b>(0.85)</b>	<b>(5.00)</b>	<b>(9.65)</b>

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 data 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 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 underfunded by \$55,688.06**

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 FY2020, FY2021 and FY2022. The student data incorrectly reported by the School resulted in its ADM being understated by 9.65. As a result, the School was underfunded by \$55,688.06, as shown in Table 5 (page 11) in Basic State Aid for the three fiscal years audited which ADE must repay to the School pursuant to A.R.S. § 15-915.

**Table 5**

**E-Institute Charter Schools, inc.  
ADM and funding adjustments due to  
AOI enrollment data errors  
Fiscal years 2020, 2021 and 2022**

	<b>ADM Adjustment</b>	<b>Total</b>
2020	(3.80)	\$(9,540.21)
2021	(0.85)	\$(6,931.42)
2022	(5.00)	\$(39,216.43)
Total	(9.65)	\$(55,688.06)

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

**Recommendations:**

1. The School must recoup from ADE \$55,688.06 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.
3. The School must regularly and correctly reconcile its data to the data contained in ADE's data system to ensure AOI enrollment data is accurate.



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

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Auditors determined that the School failed to properly maintain residency, birth certificate and immunization documentation 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 Schools 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.

In addition, auditors determined that the School 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 300 students sampled, 40 of the student files did not have the proper residency documentation, 16 did not have a birth certificate in their file and 26 student files did not have immunization record documentation in their file. Table 6 (page 13) lists the student file documentation maintained by the School for FY2020, FY2021 and FY2022.

**Table 6**

**E-Institute Charter Schools, Inc.  
Student cumulative file documentation  
Fiscal years 2020, 2021 and 2022**

	<b>Total Sampled</b>	<b>Missing Residency Documentation</b>	<b>Missing Birth Certificate</b>	<b>Missing Immunization</b>
2020	100	13	4	6
2021	100	10	4	7
2022	100	17	8	13
<b>Total</b>	<b><u>300</u></b>	<b><u>40</u></b>	<b><u>16</u></b>	<b><u>26</u></b>

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, birth certificate documentation and immunization 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, birth certificate and immunization documentation as required by law.

# 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 \$31,847.70 required to be paid to the School**—Auditors identified an overall funding adjustment of \$31,847.70 for the three fiscal years audited due to inaccurate student enrollment.

Table 7 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2020, FY2021 and FY2022.

**Table 7**

**E-Institute Charter Schools, Inc.  
ADM and funding adjustments  
Fiscal years 2020, 2021 and 2022**

	2020		2021		2022		Total	
	ADM	Funding	ADM	Funding	ADM	Funding	ADM	Funding
Inaccurate enrollment data	4.14	\$10,403.96	2.02	\$16,449.09	(0.39)	\$(3,012.70)	5.77	\$23,840.35
AOI	(3.80)	\$(9,540.21)	(0.85)	\$(6,931.42)	(5.00)	\$(39,216.43)	(9.65)	\$(55,688.06)
<b>Total funding adjustment</b>	<b>0.34</b>	<b>\$863.75</b>	<b>1.17</b>	<b>\$9,517.67</b>	<b>(5.39)</b>	<b>\$(42,229.13)</b>	<b>(3.88)</b>	<b>\$(31,847.70)</b>

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