



Arizona Department of Education

The Audit Unit

1535 W. Jefferson St., Bin 19

Phoenix, Arizona 85007

602-364-4061

Average Daily Membership Audit Report Portable Practical Educational Preparation, Inc. Fiscal Years 2012, 2013 and 2014

Report Number—16-15

November 30, 2015



**CONTACTING
THE AUDIT UNIT**

Matthew D. Boucher, Audit Manager

Phone: (602) 542-8815

Email: Matt.Boucher@azed.gov

Fax: (602) 364-2334

Mail: 1535 W. Jefferson St., Bin 19
Phoenix, AZ 85007-3209

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1535 W. Jefferson Street, Bin 19
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State of Arizona
Department of Education
The Audit Unit
1535 W. Jefferson St, Bin 19 • Phoenix, AZ 85007
Phone (602) 364-4061 Fax (602) 542-2734

Diane Douglas
Superintendent of
Public Instruction

November 30, 2015

Wayne Tucker, Superintendent
Portable Practical Educational Preparation, Inc. (PPEP, Inc.)
1840 E Benson Hwy
Tucson, AZ 85714

Dear Wayne Tucker,

The Arizona Department of Education Audit Unit has conducted an audit of the Portable Practical Educational Preparation, Inc. (School) Average Daily Membership (ADM) for Fiscal Years 2012, 2013 and 2014. 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 calculate and report some student FTE for FY2012, which resulted in the School's ADM being overstated by 0.75. As a result, the School was overfunded by \$4,506.47, 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 cursive script, appearing to read "Lisa Eddy".

Lisa Eddy,
Chief Auditor

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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 Portable Practical Educational Preparation, 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 FY2012 through FY2014.

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 or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district 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.

In addition, ADE will adjust the School's budget capacity if required. ADE School Finance Memorandum 13-011 summarizes the budget capacity adjustment authorized by statute:

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.

School's information—The School, located throughout southern Arizona, maintained ten high schools during FY2012 and seven high schools during FY2013 and FY2014. Table 1 presents the School's unaudited student, staffing and financial information for FY2012, FY2013 and FY2014.

Table 1

**Portable Practical Educational Preparation, Inc.
Total Students, Revenues and Expenditures
FY2012, FY2013 and FY2014
(Unaudited)**

	FY2012	FY2013	FY2014
Students Enrolled	950	893	880
Number of Teachers	56	n/a	57
Revenue			
Local	\$ 322,111	\$ 240,114	\$ 229,578
County	-	-	-
State	5,826,953	5,600,292	5,669,521
Federal	876,836	1,057,391	831,421
Total Revenues	<u>7,025,900</u>	<u>6,897,797</u>	<u>6,730,520</u>
Total Expenditures	<u>\$ 6,857,346</u>	<u>\$ 6,255,579</u>	<u>\$ 6,445,749</u>

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2012, FY2013 and FY2014.

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 FY2012, FY2013 and FY2014.

To conduct this audit, auditors used a variety of methods, including examining School and SAIS records for enrollment. Auditors also reviewed state statutes and School policies and procedures, and interviewed School management and staff. Specifically:

- **Instructional hours** – Auditors reviewed the bell schedules and calendars for each of the Charter Schools for FY2012, FY2013 and FY2014. The total instructional hours offered for each grade met the minimum required by statute for each of the three fiscal years audited. No findings were identified for this area.
- **Enrollment data**—Auditors compared SAIS data to the School’s SMS and identified 306 students for review. Auditors obtained the student profiles from the School’s SMS and reviewed them to determine if the enrollment data reported to ADE was correct. Auditors compared the entry and exit dates to the student profiles to determine if an adjustment was necessary. In addition, auditors reviewed the student schedules for all sampled high school students to determine if the full time equivalency (FTE) reported to ADE was correct. Depending on the number of classes needed to have a 1.0 FTE, auditors recalculated the actual FTE for the students based on the number of courses the students were taking during the year. When the audited FTE or entry or exit dates were different from the reported FTE for a student, auditors recalculated the ADM and made appropriate adjustments to the funded ADM.
- **SPED Data**—Additionally, auditors determined whether an adjusted student had also been funded for a special education category. Auditors calculated the special education adjustment based on the SPED category and service code and applied this adjustment to each respective student’s recalculated ADM and made appropriate adjustments to the funded ADM. No findings were identified for this area.
- **Limiting**—Auditors reviewed the total ADM for each enrolled student to ensure that they were appropriately limited by SAIS. No findings were identified for this area.

The Audit Unit expresses its appreciation to Portable Practical Educational Preparation, Inc.’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY CALCULATE AND REPORT SOME STUDENT FTE RESULTING IN AN OVERFUNDING OF \$4,506.47

Auditors determined that the School incorrectly calculated and reported to ADE the FTE status of 12 high school students, which resulted in the School's ADM being overstated by 0.75 for the fiscal years audited. This occurred because the School did not comply with statute and ADE guidelines when calculating the FTE status of these students. As a result, the School was overfunded by \$4,506.47 in Basic State Aid. According to A.R.S. § 15-915, ADE needs to recover these monies from the School. Additionally, the School needs to ensure it complies with statute and ADE guidelines to properly calculate and report student FTE.

The School Inaccurately Calculated and Reported FTE for 12 Students

Auditors determined that the School improperly calculated the FTE status for some of its high school students for FY2012. Auditors identified 12 high school students whose FTE status was reported to ADE incorrectly. As a result, the District's ADM was overstated by a total of 0.75.

The School Did Not Follow Statute and ADE Guidelines

The District failed to follow statute and ADE guidelines when calculating and reporting student FTE for some students. According to A.R.S. § 15-901 and ADE External Guidelines and Procedures EX-18 (EX-18), a high school student must be enrolled in at least 720 instructional hours during the year and at least 20 hours per week for the student to be reported as one FTE. A student who does not meet these requirements is considered a part-time student and their FTE status is prorated based on the number of instructional hours provided. Auditors determined that the School did not correctly calculate and report the FTE status of students who took fewer than five courses. According to auditor analysis of the School's bell schedules and calendars, students at all of the School's High Schools would have needed to take at least five School courses in the three fiscal years audited in order to be counted as enrolled full-time according to statute and ADE guidelines. However, the School incorrectly calculated and reported the FTE for these 12 students to ADE.

The School Was Overfunded by \$4,506.47

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the incorrect calculation and reporting of FTE to ADE for FY2012. As a result, the School was overfunded by \$4,506.47 in Basic State Aid, which must be repaid to ADE as required by A.R.S. § 15-915. Table 2 shows the ADM and funding adjustments required for the School for FY2012.

Table 2

**Portable Practical Educational Preparation, Inc.
ADM and Funding Adjustments Due to
Incorrectly Calculated and Reported FTE
FY2012**

Fiscal Year	ADM Adjustment	Funding Adjustment
2012	0.75	\$4,506.47
Total	0.75	\$4,506.47

Recommendations:

1. The School must repay ADE \$4,506.47 in Basic State Aid due to incorrectly reported FTE.
2. The School must comply with A.R.S. § 15-901 when calculating and reporting FTE status.

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 FY2013 and continuing in subsequent years, corrections for audit findings to both budget capacity and state aid (when applicable) will be made.

Budget capacity adjustment required—The School must adjust its budget capacity for the three fiscal years audited. Budget capacity adjustment calculations for the School will be made by ADE once the audit is finalized.

Basic State Aid adjustment of \$4,506.47 required to be repaid to ADE—Auditors identified an overall funding decrease of \$4,506.47 for the three fiscal years audited due to incorrect calculation and reporting of FTE status.

Table 3 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2012, FY2013 and FY2014.

Table 3

**Portable Practical Educational Preparation, Inc.
ADM and Funding Adjustments
FY2012, FY2013 and FY2014**

	FY2012		FY2013		FY2014		Total
	ADM	Funding	ADM	Funding	ADM	Funding	
Enrollment Data Errors	<u>0.75</u>	<u>\$4,506.47</u>	-	\$ --	-	\$ --	<u>\$4,506.47</u>
Funding Adjustment	<u>0.75</u>	<u>\$4,506.47</u>	=	<u>\$ --</u>	=	<u>\$ --</u>	<u>\$4,506.47</u>

Source: Auditor analysis of SAIS and School student and financial data for FY2012, FY2013 and FY2014.

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