



Secretary of State Audit Report

Department of Education: ADM Reporting for Students Attending Union/Baker ESD's Alternative Education Programs

Summary

PURPOSE

Our audit objective was to determine whether districts providing alternative education through the Union/Baker Educational Service District (ESD) misreported ADM to the Oregon Department of Education (department). For any misreported ADM, our objective was to determine the extent and causes of the misreporting, quantify the amount of state dollars distributed in error based on the misreported ADM, and make appropriate recommendations. We performed this work at the request of the department. We limited our review to the 1999-2000 through 2003-2004 school years.

BACKGROUND

Forty-one districts contracted with the ESD for alternative educational services during our audit period. The ESD was responsible for tracking attendance and reporting ADM to the districts for these services. The districts, in turn, were responsible for reporting this ADM to the department in order to receive State School Funds (SSF).

RESULTS IN BRIEF

We found that the districts that contracted with the ESD misreported 606 ADM to the department during our audit period. Specifically, we found that districts made the following errors:

- over-reported 356 ADM to the department due to the ESD recording and reporting excessive ADM in certain months;
- inappropriately claimed 225 ADM for students who were not residents of their districts;
- claimed 18 ADM for students who were either younger or older than allowed by state rules; and
- submitted seven ADM in duplicate claims for the same students during the same school years.

We also found that one district submitted a claim for twice the ADM it should have. Because of this, the district claimed 20 ADM in error.

As a result of these inappropriate claims, the department distributed approximately \$3.4 million in SSF to which the districts involved were not entitled.

Recently, the department implemented a new online reporting system that requires districts to report additional data for students claimed for ADM such as the student's date of birth, resident district, and enrollment and withdrawal dates. This new system should address some of our findings. However, the accuracy of claims depends on districts submitting accurate student data to the department. Currently, the department does not verify these data.

RECOMMENDATIONS

We recommend the Department of Education take the following actions:

- Seek reimbursement from the districts for the SSF the department distributed based on the districts' inappropriate claims.
- Consider completing residency testing for the school districts for which we did not test the complete population of claims. The department should seek reimbursement from the districts for any SSF it distributed based on claims for non-resident students for whom districts did not have inter-district transfer agreements.
- Develop policies and procedures for verifying student information districts submit through the new online reporting system. This could include requiring districts to submit documentation, such as enrollment forms and inter-district transfer agreements, along with the information they provide online, and performing onsite reviews of districts' attendance and ADM reporting processes.

OTHER MATTERS

When we compared the ESD's ADM reports for the 1999-2000 school year to the ADM the department used to distribute SSF, we found that the ADM the department used was less than what the ESD recorded internally. When we followed-up on this issue, we found that the department mistakenly omitted portions of some districts' claims worth about \$248,000 in SSF.

We also identified instances in which the ESD may have underreported ADM worth about \$279,000 in SSF. Specifically, we found that the ESD did not report portions of ADM that it recorded in its internal ADM reports for two districts over several school years.

RECOMMENDATIONS

We recommend that the department take the following actions:

- After considering SSF districts owe because of findings we have identified in this audit, the department should distribute any SSF due districts because of ADM the department omitted.
- To ensure SSF for the 1999-2000 school year were distributed accurately, consider comparing districts' 1999-2000 ADM submissions not included in our review to the ADM the department used to distribute SSF. The department should then distribute SSF commensurate with any omitted claims.

- Consult with the ESD and the districts to determine whether the ESD did indeed underreport ADM. The department should distribute any SSF owed to districts because of such underreporting after considering SSF districts owe because of our other findings.

AGENCY'S RESPONSE

The Department of Education generally agrees with the recommendations. Its complete response can be found starting on page 7.

Background**Alternative Education**

The state defines an alternative education program as "a school or separate class group designed to best serve students' educational needs and interests and assist students in achieving the academic standards of the school district and the state."¹ Alternative education programs include traditional academic subjects such as math, English and science, as well as other classes such as landscaping, cooking, and Karate. The programs are offered in a variety of formats such as tutorial, small group, and large group instruction. Districts are responsible for placing students into the alternative programs they operate or with which they contract.

In 2003, 140 of Oregon's 198 districts offered alternative education programs. About 13,000 students in kindergarten through high school attended these programs.

ADM and SSF Distribution

Average Daily Membership (ADM) represents the average number of students in membership on any given day during the reporting period. ADM for students enrolled in alternative education programs is computed in one of two ways. For fulltime programs, ADM is based on the number of days a student attends the program.

For part-time programs, ADM is based on the number of hours a student attends the program, as well as the size of the group in which the student receives instruction.

The Department of Education (department) funds education through State School Fund (SSF) distributions to individual districts. The SSF districts receive consists mostly of General Purpose Grant revenue, which is dependent on the ADM districts claimed.² The department also adjusts districts' SSF distributions based on the local revenue districts receive.

Union/Baker Educational Service District

During the 1999-2000 through 2003-2004 school years, 41 districts contracted with Union/Baker Educational Service District (ESD) for alternative educational services. The ESD's alternative education services included a wide variety of programs such as instruction in traditional academic subjects, programs for English as a second language (ESL) and homeschool students, and resources for pregnant and/or parenting students. Students in these programs ranged from kindergarteners through 12th graders. They attended class both fulltime and part-time.

Along with providing alternative education services, the ESD was responsible for tracking attendance

² Districts also receive SSF for costs related to transportation, facilities, and serving disabled students. These SSF distributions are not dependent on ADM.

and calculating ADM for students attending its programs. The ESD provided districts with billing statements that listed students attending the ESD's programs, their associated ADM, and the amount districts owed for the alternative education services. Either the school district or the ESD reported the ADM to the department in order to receive SSF. In most cases, the contracts between the districts and ESD contained a limit on the total dollar amount the district would pay the ESD for alternative education and/or a limit on the amount it would pay per ADM.

During the 1999-2000 through 2003-2004 school years, the ESD served, on average, approximately 1,800 alternative education students, accounting for about 5,000 ADM worth approximately \$24 million in SSF.

Audit Results

When we reviewed claims for students attending the ESD's alternative education programs, we found that, based on information the ESD reported, districts made the following errors:

- reported excessive ADM to the department for some months;
- inappropriately claimed ADM for non-resident students;
- claimed ADM for students outside of the department's prescribed age parameters; and

¹ Oregon Revised Statute 336.615.

- made multiple claims for the same students during the same school years.

We also found that one district submitted a claim for twice the ADM it should have.

Districts erroneously claimed 626 ADM as a result of these errors. Consequently, the department incorrectly distributed about \$3.4 million in SSF to districts during our audit period.

ESD Overstated ADM

The ESD was responsible for maintaining attendance for each student in the program. It calculated ADM for a given month based on students' hours of attendance and instructional group size.

We analyzed the ESD's attendance records to verify its claims. To do so, we calculated the maximum allowable ADM the ESD could record for each month based on the number of days a student could have received instruction. We then compared the maximum allowable ADM to what the ESD recorded for each student.

As a result of this analysis, we determined that 40 of the 41 districts over-reported a total of 356 ADM.

Districts Inappropriately Claimed ADM for Non-Resident Students

In Oregon, residency is an important concept in public education. It determines which school district is responsible for educating an individual, and it is the basis on which the department distributes SSF to districts. Therefore, it is important that each student's legal residency be established to assure proper distribution of these funds.

According to department guidance, for school purposes, persons between the ages of four and 18 are generally considered

residents of the school district in which their parents, guardians, or persons in parental relationship with them reside.³ In addition, for the purpose of distributing state funds, students may be considered residents of the districts where they attend school but do not live, if they have the written consent of the affected districts' school board. According to department guidance, written consent should be documented on an inter-district transfer agreement.

We reviewed the ESD's ADM reports and hardcopy student information to determine whether students were claimed by their resident district. Specifically, we judgmentally selected about a third of 8,335 claims districts made for the ESD's alternative education programs during our audit period.⁴ However, due to the lack of available addresses, we were able to determine the residency of only 1,988 of the selected claims. For students we found to reside outside of their claiming district, we looked for an inter-district transfer agreement. We considered claims for non-resident students with no inter-district transfer agreement as errors.

Based on our initial analysis, we identified 15 districts with more than 22 percent of their claims in error. We then reviewed the remaining claims for these 15 districts. Including claims from our initial analysis, we reviewed 969 claims submitted by the 15 districts. Of the 969 claims, we found that a district average of 38 percent of these were for non-resident students for whom we could not locate an inter-district transfer agreement. Overall, we

³ Legally emancipated individuals are residents of the district in which they actually reside.

⁴ The districts submitted 9,220 claims during our audit period. However, we excluded 885 claims submitted by 6 districts during the 2001-2002 and 2002-2003 school years. These districts and years were included in a separate audit released by a private accounting firm.

found that 32 of the 41 districts included in our review submitted 373 claims for non-resident students for whom they did not have inter-district transfer agreements. These inappropriate claims accounted for 217 ADM.

While reviewing student residency, we also identified 11 claims for students who resided in the states of Washington and Idaho. Since these students were not residents of Oregon, they were not eligible for state school funding. The districts involved inappropriately claimed eight ADM for these students.

Districts Claimed ADM for Students Outside Allowable Age Range

According to state rules, a student must be four years or older, but less than 21 years of age by the start of the school year to attend public school free of charge. Districts are not entitled to SSF for students who do not meet these age requirements.

To test for compliance with these rules, we used the same sample we selected for residency testing. However, due to lack of available records, we were able to test compliance with the age rule for only 2,331 of the 2,879 claims we sampled. We found that 31 of these were for students who did not fall within the allowable age range. These inappropriate claims accounted for 18 ADM.

Districts Submitted Multiple Claims for Some Students

We reviewed the ESD's internal attendance and ADM reports to determine whether districts inappropriately claimed students for ADM more than once during the same school year. To do so, we analyzed 8,335 claims districts made for the ESD's alternative

education programs during our audit period.⁵

As result of our analysis, we identified two students who were claimed more than once by the same district during the same school year. We also identified 15 students who were inappropriately claimed by two districts during the same school year. In total, districts claimed seven excessive ADM for these students.

One District Submitted Duplicate Claim

As part of our review of districts' claims for alternative education, we compared the ESD's internal ADM reports to the department's ADM reports. This revealed that one district claimed twice the amount of ADM the ESD recorded for the 2003-2004 school year. As a result, the district claimed 20 ADM to which it was not entitled.

\$3.4 Million in SSF Was Distributed in Error

Based on the above findings, we determined that districts submitted a total of 626 ADM to which they were not entitled. The department erroneously distributed about \$3.4 million in SSF as a result of these claims. We adjusted this dollar figure to take into account the fact that some of the same students were included in more than one of the above findings. This adjustment provided assurance that we did not overstate the SSF distributed in error.

Department Did Not Verify Accuracy of Claims

Our audit results show that the department did not verify the accuracy of the claims districts submitted. During our audit period, the department only required districts to report ADM data at the aggregate level, rather than at the student level. For example, the department did not

require districts to provide student specific information such as date of birth, enrollment and withdrawal dates, and hours of attendance. In addition, the department did not review or audit district-submitted ADM data to verify its accuracy.

New Online System Has Potential to Improve Accuracy of ADM Reporting

More recently, the department made strides to ensure accurate ADM reporting. Starting with the 2004-2005 school year, the department implemented a new online ADM reporting system that requires districts to report ADM data at the student level rather than at the aggregate level provided in the past. Prior to submitting ADM data, districts must now use the online tool to submit student details such as date of birth, current address, resident district, attending district, and enrollment and withdrawal dates for each student they claim for ADM.

The new online ADM reporting system has the potential to mitigate some, but not all, of the findings we identified. According to the department, the new process will perform the following actions:

- reject claims for students outside of prescribed age parameters;
- reject multiple claims for a single student; and
- limit the amount of ADM that can be claimed, based on the student's enrollment and withdrawal dates.

However, the new system does not prevent districts from claiming ADM for non-resident students. Even though the new system collects student address data, it currently cannot verify whether that address is located within the claiming district's boundaries. In addition, the system's ability to deter inaccurate claims depends on districts submitting accurate

student information such as dates of birth, enrollment and withdrawal dates, and addresses. Currently, the department does not have procedures to verify that student data districts submit using the online system is accurate.

Recommendations

We recommend the Department of Education take the following actions:

- Seek reimbursement from the districts for the SSF the department distributed based on districts' inappropriate claims.
- Consider completing residency testing for the school districts for which we did not test the complete population of claims. The department should seek reimbursement from the districts for any SSF it distributed based on claims for non-resident students for whom the district did not have inter-district transfer agreements.
- Develop policies and procedures for verifying student information districts submit through the new online reporting system. This could include requiring districts to submit documentation, such as enrollment forms and inter-district transfer agreements, along with the information they provide online, and performing onsite reviews of districts' attendance and ADM reporting processes.

Agency's Response:

The Department of Education generally agrees with the recommendations. Its complete response can be found starting on page 7.

Other Matters

When we compared the ESD's ADM reports for the 1999-2000 school year to the ADM the department used to distribute SSF, we found that the ADM the department used was less than what

⁵ Ibid footnote 4

the ESD recorded internally. The percentage difference ranged from a low of 4 percent at one district to a high of 13 percent at another. When we followed up on this issue, we found that the department mistakenly omitted portions of some districts' claims. These omissions accounted for 54 ADM worth approximately \$248,000 in SSF.

We also identified instances in which the ESD may have underreported 57 ADM worth about \$279,000 in SSF. Specifically, we found that the ESD did not report portions of ADM it recorded in its internal ADM reports for two districts over several school years.

We recommend that the department take the following actions:

- After considering SSF districts owe because of findings we have identified in this audit, the department should distribute any SSF due to districts because of ADM the department omitted.
- To ensure SSF for the 1999-2000 school year was distributed accurately, consider comparing districts' 1999-2000 ADM submissions not included in our review to the ADM the department used to distribute SSF. The department should then distribute any SSF commensurate with any omitted claims.
- Consult with the ESD and the districts to determine whether the ESD did indeed underreport ADM. The department should distribute SSF owed to districts because of such underreporting after considering SSF districts owe because of our other findings.

Agency's Response:

The Department of Education generally agrees with the recommendations. Its complete response can be found starting on page 7.

Objectives, Scope and Methodology

Our audit objective was to determine whether districts providing alternative education through the Union/Baker Educational Service District misreported ADM data to the Oregon Department of Education. For any misreported ADM, our objective was to determine the extent and causes for the misreporting, quantify the amount of state dollars distributed in error based on the misreported ADM, and make appropriate recommendations. We performed this work at the request of the Department of Education.

To meet these objectives, we reviewed districts' claims for students receiving alternative education services from the ESD during the 1999-2000 through 2003-2004 school years. At the request of the department, we did not include claims submitted by the Imbler, North Powder, Cove, Union, or LaGrande school districts for the 2001-2002 and 2002-03 school years, and Harper School District for the 2002-2003 school year, in our tests to identify inappropriate residency, age and multiple claims. These districts were included in a separate audit released by a private accounting firm in 2004. However, we included claims submitted by these districts in our testing to identify excessive ADM.

We also interviewed department, ESD and district staff, and reviewed the following documentation:

- contracts between the ESD and districts for alternative educational services;
- laws and rules governing student eligibility and ADM reporting for alternative education programs;
- ESD attendance and ADM data; and

- ESD student records, including alternative education enrollment forms, alternative education referral forms, inter-district transfer agreements, and other relevant documentation the ESD retained.

We reviewed the ESD's internal attendance spreadsheets and ADM reports and found differences between the two that we were unable to reconcile. We relied on the ADM reports as the starting point for determining whether districts misreported ADM.

Identifying Excessive ADM

To determine whether districts reported excessive ADM to the department, we calculated the maximum allowable ADM in a given month and compared that to the amount the ESD recorded for each student. We considered any ADM in excess of our determined maximum as excessive.

We calculated the maximum allowable ADM by determining the maximum number of days a student could have received instruction from the ESD in a given month. In determining the allowable days we took into account the five-day rule, which stipulates that a student may not receive more than five days worth of instruction during a one-week period.⁶ We then calculated a maximum ADM amount for that month using the tutorial group size formula.

Determining Appropriate Residency

To determine whether the appropriate district claimed ADM for students, we judgmentally selected a sample of 2,879 (35 percent) of 8,335 alternative education claims districts made during our audit period. We reviewed student records for each sampled claim to identify addresses for those students during the school years of the claims. Due to lack of

⁶ Oregon Administrative Rule 581-023-006 (6).

records, we were unable to identify addresses for 31 percent of the sample. We used geographic information system (GIS) software to verify whether the addresses we found were within the claiming districts' boundaries. We relied on school district boundary and street layer data provided by the Department of Administrative Services, which we found to be sufficiently reliable for our audit purposes. We then looked for inter-district transfer agreements for students residing outside the boundaries of their claiming district. In instances in which we found no inter-district transfer agreements for students residing outside of their claiming districts' boundaries, we considered the ADM for those students to be inappropriately claimed.

Using the same procedures, we tested the residency of all students for 15 districts, which we initially found to have a relatively high percentage (at least 22 percent) of errors during our first test. We also performed our residency test for an additional district that we initially determined was above the 22 percent error rate. Subsequently, we located addresses for this district, which dropped the district's error rate below 22 percent.

We gave claiming districts an opportunity to respond to our finding either by providing copies of signed inter-district transfer agreements or by providing alternate addresses that would place the associated students in their district during the school year in question.

Determining Appropriate Age

To identify whether districts reported ADM for students outside of the allowable age range, we used the same sample of 2,879 claims described above. For the students associated with these claims, we reviewed birthdates listed in the ESD's student records and then

determined whether the students were of the appropriate age as of September 1 of the year in which they were claimed. Due to a lack of records, we were not able to identify dates of birth for 548 of the students in the sample and, therefore, could not verify that these students met the department's age requirements.

Identifying Multiple Claims for the Same Student

We reviewed 8,335 alternative education claims the districts made during our audit period to determine whether districts submitted multiple claims for the same student during the same school year. We considered as inappropriate the following instances: (1) multiple claims made by one school district for the same student in the same school year and (2) multiple claims made by more than one district for the same student during the same school year. We did not consider students claimed more than once in a single month as inappropriate since a student may have moved and been legitimately claimed by more than one district in a month.

Calculating SSF Paid in Error

To determine the amount of SSF the department paid in error, we adjusted our final calculation of SSF overpayment to account for instances in which more than one of our tests showed the same students were erroneously claimed for ADM. For example, if we found that a student was not of the proper age and also was not a resident of the claiming district, we excluded from our final SSF calculation the ADM associated with the residency finding. Next, we adjusted the resulting ADM we identified as inappropriate to account for additional weights districts received for ESL and pregnant and parenting students. We based our determination of whether claims were for ESL and

pregnant and parenting students on information captured in the ESD's internal ADM reports. Using department reports, we also determined the General Purpose Grant amounts per weighted ADM that the districts received each year during our audit period. Lastly, we multiplied the weighted inappropriate ADM we identified for each district and school year by the general purpose grant amount per weighted ADM the districts received during our audit period.

We conducted this audit in accordance with generally accepted government auditing standards.

Department of Education's Response to the Audit Report

In 2004, the Oregon Department of Education (ODE) became aware of questions regarding alternative education programs operated by the Union Baker Education Service District (UBESD). As part of the ODE's investigation into these questions, the State Superintendent of Public Instruction asked the Secretary of State's (SOS's), Audits Division to determine how State School Fund (SSF) payments were claimed and distributed to districts participating in UBESD alternative education programs.

The ODE generally agrees with the findings contained in the UBESD audit report. With respect to the findings, ODE believes that the SOS audit report clarifies the relationship between the students that were claimed by school districts for SSF reimbursement related to UBESD alternative education programs and those student's actual resident school districts. These findings allowed the SOS auditors to determine the appropriateness of SSF claims for students in UBESD alternative education programs.

As required by agency policy, the ODE will develop a Corrective Action Plan (CAP) to more fully address the recommendations contained in the audit report. In developing an appropriate CAP, ODE will, as needed, contact school districts that are affected by the audit to obtain additional information.

With respect to the recommendations that are part of the "Audit Results" section, ODE has the following response:

Reimbursement – ODE believes it is appropriate to pursue correction of SSF payments based on the information provided by the audit results. ODE will seek reimbursement of SSF payments generated by students who were not legally entitled to SSF, for example, students who are beyond age limits or who were claimed elsewhere by another school district. ODE will also seek reimbursement of the appropriate percentage of the SSF claimed by school districts for students who were residents of other school districts. In that process, ODE will likely need to consider input from the districts to determine the appropriate percentage.

Residency testing – ODE will consider conducting residency testing within existing staffing and budget levels.

Verifying student attendance data – ODE currently collects student attendance data online and has implemented a Secure Student Identification (SSID) system to assign all students a secure individual identification number. The SSID system allows ODE to more efficiently and accurately analyze student enrollment and attendance data, for example, by matching SSID numbers with school district identification numbers to ensure that students are not simultaneously claimed for funding purposes by more than one school district. This process was not in place for the period under audit. ODE believes that the implementation of this system will adequately address the concerns regarding verification of student attendance data raised by the audit.

ODE believes that the implementation of this system will adequately address the concerns regarding student enrollment data raised by the audit. As part of the CAP, ODE will consider developing written policies and procedures for verifying the student enrollment and attendance data submitted by districts through the on-line reporting system. Since the SSID system is designed to streamline reporting, the ODE will need to weigh carefully the benefits of requesting additional paper documentation, as suggested by the Audits Division, against the cost to districts and the ODE.

Since the SSID system also allows ODE to do cross-collection checks (e.g., to check the ADM data against the Fall Membership and Spring Membership data) to look for internal inconsistencies in the data that suggest misreporting, ODE will consider the cost-effectiveness of using the system for this purpose rather than requiring additional documentation from districts.

With respect to the recommendations that are part of the "Other Matters" section, ODE has the following response:

SSF owed to school districts – ODE will carefully review the findings with our legal counsel and consider an offset of any funds owed due to underpayment of SSF from funds that may be subject to reimbursement to the SSF.



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*The courtesies and cooperation extended by the officials and staff of
Department of Education were commendable and much appreciated.*

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