



Secretary of State Audit Report

Department of Education: Alternative Education and ADM Reporting

Summary

PURPOSE

The purposes of our audit were the following:

- describe the types of programs, students served and Average Daily Membership (ADM) claimed for alternative education programs in Oregon; and
- determine whether school districts' 2003-2004 school year ADM claims for selected alternative education programs were appropriate and, if not, determine the factors that contributed to any inappropriate claims and their impact on the State School Funds (SSF).

We performed this work at the request of the Department of Education (department).

BACKGROUND

Oregon law allows parents and guardians to enroll their children in alternative education programs when school districts determine it is necessary to meet students' educational needs. Some districts operate their own programs, while others contract with outside entities for alternative education. Districts receive SSF for alternative education based on the Average Daily Membership (ADM) claims they submit to the department.

RESULTS IN BRIEF

In order to describe the types of programs, students served and ADM claimed for alternative education, we surveyed program providers and found that alternative education programs are diverse. Specifically, we found the following concerning alternative education programs:

- they are operated by a variety of entities;
- they serve diverse students who attend programs to meet various needs; and
- they use varied ADM accounting methods.

During our review of ADM claims for four alternative education programs, we found that districts claimed approximately \$1,125,000 in SSF based on inappropriate and questionable ADM submissions. Of this amount,

approximately \$318,000 was associated with the following inappropriate practices:

- claiming nonresident students without referral forms or the written consent of affected school districts;
- making inaccurate ADM claims due to flawed attendance tracking, faulty ADM calculations, inappropriate use of the fulltime ADM method and reliance on inaccurate summary attendance data; and
- considering unlicensed assistants and interns as instructors in a public program, which reduced group size and increased ADM.

The department distributed the remaining \$807,000 in SSF as a result of the following questionable practices:

- using a form that did not contain the written consent of both affected school districts when claiming ADM for nonresident students; and
- considering assistants as instructors in a private program, which reduced group size and increased ADM.

RECOMMENDATIONS

We recommend the Department of Education take the following actions:

- seek reimbursement of the \$318,000 of SSF associated with the six inappropriate practices we identified;
- consider seeking reimbursement of the \$807,000 of SSF associated with the two questionable practices we identified;
- clarify policy regarding what constitutes adequate written consent of affected school districts when claiming nonresident students and the appropriate use of assistants when determining group size;
- develop and implement policy directing districts and programs to gather and maintain the attendance data necessary to produce accurate ADM claims; and

- periodically verify districts' ADM claims.

OTHER MATTERS

We found that districts claimed ADM for questionable classes one program offered such as those titled Learn-to-Ski, Roller Skating/Blading Training, Equine Explorer and Cosmic Bowling. After reviewing state content standards and rules, it was not clear to us whether it is appropriate for districts to claim SSF for these types of courses.

We also found that a district and an Educational Service District used P.O. boxes as proof of residency, which poses a risk of students establishing residency with a P.O. box and attending schools outside of their resident districts.

Finally, we found that a department employee provided inconsistent guidance to districts that contacted the department for clarification concerning the 10-day rule and the minimum number of hours that fulltime programs must be in session. In addition, the employee defined the divisor used in part-time ADM calculations as program session days, not 175, the factor established in statute.

RECOMMENDATIONS

- We recommend** the department take the following actions:
- clarify whether districts may legitimately claim SSF reimbursement for courses such as those we have described here;
- determine if P.O. boxes are acceptable proof of residency; and
- clarify and consistently communicate policies defining the minimum number of hours a fulltime program must be in session, what constitutes one-half day for the purposes of the 10-day rule, and the appropriate divisor for calculating part-time ADM.

AGENCY'S RESPONSE

The Department of Education generally agrees with the recommendations. The department's response begins on page 5 of this report.

Background

Alternative Education Available to All Students

Oregon law allows parents and guardians to enroll children in alternative education programs when school districts determine it is necessary to meet students' educational needs. Oregon Revised Statute (ORS) 336.615 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." Oregon Administrative Rules (OARs) define accountable activities for alternative education programs as one or more of eleven types of instruction, training or other activities. However, neither the ORS nor OARs clearly specify the educational content of alternative education.

Some districts operate their own alternative education programs, while others contract with other districts or other entities such as private operators, community colleges and Educational Service Districts (ESDs), to provide alternative education.

State School Funds Pay for Alternative Education

To fund alternative education, school districts receive State School Funds (SSF) from the Department of Education (department) based on Average Daily Membership (ADM) claims they submit. Calculated using the fulltime or the part-time method, ADM is the average number of students in membership on any given day during the reporting period.

The fulltime method is for programs in session a minimum number of hours during the school year, an amount that varies based on grade-level. For example, the high school minimum is equivalent to six hours a day, five days a week for 33-weeks. Fulltime ADM is calculated by dividing students' total enrollment days by the total number of days the school or program was in session. Absences do not reduce enrollment days unless a student is absent for 10 or more consecutive days, in which case the student must be withdrawn and the count of enrollment days stopped until the student returns. A student is considered present if he or she is in attendance for at least one-half day.

The part-time ADM method is for programs in session less than the fulltime minimum. To calculate part-time ADM, the total number of hours students attend a program is multiplied by a factor associated with the size of the group in which the students received instruction. That product is then divided by a factor of 175, as established by statute.

Fulltime alternative education programs have the option of using either the full or the part-time method.

Audit Results

To answer our first objective, we surveyed program providers and found that alternative education programs are diverse. Specifically, the programs are operated by a variety of entities, serve students from diverse populations who attend programs to meet various needs, and use varied ADM accounting methods.

For our second objective, we judgmentally selected four alternative education programs and reviewed their 2003-2004 ADM claims. We found that the districts operating or contracting with the programs:

- inappropriately claimed ADM for nonresident students without a referral form or the written consent of affected school districts;
- claimed ADM for nonresident students using a questionable form that did not contain the written consent of affected school districts; and
- miscalculated ADM due to flawed attendance tracking, incorrect ADM calculations, faulty and questionable group size determinations, reliance on inaccurate summary attendance data and incorrectly claiming ADM as a fulltime program.

Alternative Education Programs and ADM Reporting Methods are Diverse

To answer our first audit objective, we surveyed 290 alternative education providers and received responses regarding nearly 300 programs¹. By far, the most prevalent type of program operator was school districts, followed by private entities, ESDs, community colleges and governmental organizations. The approximately 250 programs that reported their student enrollment numbers served a total of nearly 30,200 students.

Alternative education program operators and providers reported having diverse focuses and serving diverse populations. Specifically, when we surveyed programs providers we asked them to describe their objectives and student populations. The three most often cited program objectives were credit recovery, GED preparation and professional development. The three most common responses about student population were that students served are at risk of dropping out or have behavioral problems; they are not successful in

¹ An alternative education provider may provide more than one program.

traditional schools; and they are pregnant and/or parenting.

As part of our first objective, we intended to determine the total ADM claimed for all alternative education programs across the state. However, we were unable to do so because some schools did not track ADM for their alternative education programs separately.

Districts Inappropriately Claimed ADM for Nonresidents

Our second audit objective involved performing tests to determine if school districts' 2003-2004 ADM claims were appropriate. One of these tested the residency of students for whom school districts claimed ADM.

According to statute, persons between the ages of four and 18 are considered residents of the school district in which their parents, guardians or persons in a parental relationship with them reside. Residency is important because it determines which school district is responsible for educating an individual, and is the basis on which the department distributes SSF.

Because school districts are allowed to contract with other entities for alternative education, some students attend programs outside the districts in which they reside. According to department rules, for a student to be claimed for SSF by a nonresident district, consent of the resident and the attending school district boards must be documented in writing.²

We found that four school districts claimed nonresident students for ADM without the written consent of affected school districts. We also found that the districts did so because they did not

² The department refers to the written consent of affected school districts as an interdistrict transfer agreement.

verify students' residency.³ As a result, the districts claimed approximately seven ADM for nonresident students for whom there were no written agreements signed by both school districts.

In addition, we found that when claiming nonresident students, two districts used a questionable form that did not contain the written consent of both affected school districts. Specifically, the form was a release from the districts to attend the program, which contained the written consent of only one school district. Further, on some forms, a district other than the student's resident district signed in place of the resident district. In addition, other forms were signed after the date students began attending the program. The districts claimed approximately 128 ADM for nonresident students for whom they used the questionable form.

When we followed up on this issue, program and district officials reported that a 1995 letter the department sent to one of the districts allowed the use of the questionable form.⁴ Program officials added that the department also verbally sanctioned the use of the form.

Flawed Attendance Tracking and ADM Calculations

As ADM calculations are based on student attendance, maintaining accurate attendance records is important. This is reflected in an OAR, which stipulates that programs must have adequately controlled attendance accounting systems, which allow for

³ In one of these cases, the district relied on an incorrect residency determination an ESD made.

⁴ In September 2005, subsequent to our audit period, the department formally rescinded the 1995 letter through an executive memorandum. In addition, the department issued executive memoranda in June 2005 and May 2006 that provided guidance about items addressed in the 1995 letter.

verification of the accuracy of reported data.

We found that all four of the programs we reviewed had flawed attendance tracking procedures, calculated ADM inaccurately or both. For example, we found that the database one program used for attendance and ADM purposes contained errors. When we worked with the program's database to verify its 2003-2004 ADM claim, we found that the ADM amounts claimed in 2003-2004 could not be replicated. As a result of these errors, some students' ADM claims were overstated and others were understated. The errors also led the program to incorrectly include some students in the ADM claim and exclude others that should have been claimed. We discussed this with the program's database manager, who told us the database used to produce the 2003-2004 ADM invoices contained errors, but that the problems had since been corrected. He also told us the program's 2003-2004 ADM claim was incorrect since it was based on a query of the database that contained errors. We worked with the database manager to write a query using the corrected version of the database that produced accurate ADM amounts. As a result, we found that the program's database problems caused the districts contracting with the program to overstate their claims by a total of about two ADM.

Similarly, we found that another program's computerized ADM and attendance tracking system was inaccurate. This program used the fulltime method for calculating ADM. However, the system did not accurately count two essential components used in the fulltime ADM calculation—students' enrollment days and program session days, nor did it consistently drop a student after 10-days of absence. In addition, we found that absences and withdrawal dates were not accurately recorded in the system. The problems we identified resulted in the program misstating

its fulltime ADM claim. However, in addition to the problems with the attendance and ADM tracking system, we also found that the program did not meet for the minimum number of hours to qualify as fulltime. Therefore, as discussed in the next section, we recalculated the program's ADM claim using the part-time method.

We were unable to verify one program's ADM claim because staff did not retain the attendance records on which the claim was based according to record retention rules in effect during our audit period. Also, when we discussed the program's attendance taking practice with staff, they told us that they took attendance for ADM reporting only in the morning, as students entered the building. If a student then left without having been in school for at least a half day, he or she would not be counted as absent. Consequently, this program would not necessarily have identified all instances in which students were absent for 10 or more days. Therefore, we believe there was a risk the program over reported ADM.

In addition to flawed attendance taking and ADM tracking tools, we found a significant difference between attendance data one program maintained and the ADM reported to the department by two districts that contracted with the program. Our inquiries revealed that one district submitted a double ADM claim to the department because district staff used an incorrect annual summary of hours the program had provided. The net effect of this double billing was approximately two ADM claimed in error.⁵

When reviewing the ADM claim for the second district, we found that the district did not use the fulltime ADM reporting method

⁵ As discussed below, this public program also used an inappropriate group size to calculate ADM. The two ADM cited here is the error attributable solely to the double billing problem.

correctly. Specifically, program staff did not calculate membership days as those between enrollment and withdrawal. Instead, staff only counted days students were present. The district's incorrect use of the fulltime method caused it to underreport its claim by more than three ADM.

Part-Time Program Calculated Fulltime ADM

As noted above, we identified a part-time program that inappropriately calculated ADM using the fulltime method. To be considered fulltime, a high school program must be in session for at least 990 hours. This high school program had five subsections, none of which was in session for 990 hours. The district's Assistant Superintendent told us he had only recently learned of the 990 hour fulltime requirement. The inappropriate use of the fulltime method caused the school district to over report their claim to the department by more than 51 ADM.

Programs Used Questionable Group Size Factor

The group size factor is based on class size. For example, OAR 581-023-0006 defines small group as instruction provided to a class of two to five students. Group size is an essential component of the part-time ADM calculation. We found problems with the manner in which two programs determined the group size they used to calculate ADM. One public program incorrectly considered unlicensed assistants and university interns as instructors in their determination of group size. Statute specifies that teachers in public alternative education programs must be licensed. In addition, department guidance states that group size determinations in public programs are based on the number of students in a class per licensed instructor. Because the program considered unlicensed assistants and interns as

instructors when determining group size, it caused districts to overstate their claims by a total of approximately three ADM.

Similarly, we found that a private program considered assistants as instructors when determining group size. When we reviewed relevant rules, we found that they were not clear as to whether the practice is appropriate in private programs where instructors need not be licensed. Department management told us that assistants need to provide classroom instruction and classes need to break into groups with assistants in order for the practice to be appropriate in a private program. We then reviewed assistants' job expectations and found they did not include instruction. Moreover, program staff told us classes rarely broke into groups with assistants. Therefore, we question whether the districts that contracted with the program were entitled to the additional ADM they received because of the reduced group size.

Program and district officials told us they relied on the 1995 letter from the department noted above as guidance for the practice of considering assistants as instructors when determining group size. Furthermore, program staff added that department staff verbally sanctioned the practice. We determined this practice increased the districts' claims by a total of approximately 71 ADM.

State School Funds Paid in Error

We determined that districts claimed approximately \$1,125,000 in SSF as a result of the inappropriate and questionable practices we identified. Of this amount, approximately \$318,000 was associated with the following inappropriate practices of districts and/or programs:

- claiming nonresident students without referral forms or the

written consent of affected school districts;

- using flawed ADM and attendance tracking and calculation tools;
- claiming twice the ADM a district should have after receiving incorrect summary attendance data from a program;
- calculating ADM incorrectly;
- using the fulltime method to calculate ADM for a part-time program; and
- considering unlicensed assistants and interns as instructors in a public program, which reduced group size and increased ADM.

Districts claimed the remaining \$807,000 in SSF as a result of these questionable practices of districts and/or programs:

- using a form that did not contain the written consent of both affected school districts when claiming ADM for nonresident students; and
- considering assistants as instructors in a private program, which reduced group size and increased ADM.

Recommendations

We recommend the department take the following actions:

- seek reimbursement of the \$318,000 of SSF associated with the six inappropriate practices we identified;
- consider seeking reimbursement of the \$807,000 of SSF associated with the two questionable practices we identified;
- clarify policy regarding what constitutes adequate written consent of affected school districts when claiming nonresident students and the appropriate use of assistants

when programs determine group size;

- develop and implement policy directing districts and programs to gather and maintain the attendance data necessary to produce accurate ADM claims; and
- periodically verify districts' ADM claims.

Agency's Response:

The Oregon Department of Education (ODE) generally agrees with the recommendations.

- *ODE will seek reimbursement of funds associated with the six inappropriate practices and two questionable practices and will consult with the Department of Justice if necessary.*
- *ODE will clarify in administrative rule what constitutes adequate written consent of affected school districts for purposes of approving interdistrict transfers.*
- *ODE will clarify in administrative rule the appropriate use of instructional and other classroom assistants in calculating group size.*
- *ODE will develop and implement policy directing districts and programs to gather and maintain attendance data necessary to produce accurate ADM claims by updating and distributing the Oregon Student Personnel Accounting Manual.*
- *ODE will consider conducting periodic verification of ADM submitted by school districts within existing agency staffing and funding levels.*

Other Matters

ADM Claimed for Questionable Classes

We found that some districts claimed ADM for questionable

courses, including ones titled Learn to Ski, Roller Skating/Blading Training, Equine Explorer and Cosmic Bowling.

After reviewing the state accountable activities rule and state content standards, it was unclear to us whether these types of courses could legitimately be funded with SSF.

The program that offered the aforementioned courses contends all courses in the program meet applicable state content standards.

Districts and ESD Accepted P.O. Boxes as Proof of Residency

We found that one school district and one ESD accepted P.O. boxes as proof of residency. We believe this poses a risk of students establishing residency with a P.O. box and attending schools outside of their resident district. While neither rule nor statute preclude the practice, department management indicated P.O. boxes were not sufficient to establish residency.

Department Provided Inconsistent Guidance

During our audit, we learned a department employee provided guidance to school districts subsequent to our audit period that appeared inconsistent with established criteria. Specifically, the employee said he told districts the hour minimum for fulltime alternative education programs was lower than the minimum established in statute, which makes no distinction between alternative and traditional programs. He also said he told districts one class period was considered one-half day for purposes of the 10-day rule. For a student who attends class for three or more periods, this guidance is not consistent with the department's Oregon Student Personnel Accounting Manual, which states a student must be present for at least one-half day in order to restart the count of

consecutive days absence. Finally, he told us the divisor used in part-time ADM calculations was program session days, not 175, which is the factor stipulated in statute for year end ADM calculations.

Agency's Response:

The person who provided guidance inconsistent with established criteria is no longer employed by ODE. ODE will review its processes for responding to district questions regarding claims for ADMw.

We recommend the department take the following actions:

- clarify whether districts may legitimately claim SSF for the types of courses we described;
- determine if P.O. boxes are acceptable proof of residency; and
- clarify and consistently communicate policies defining the minimum number of hours a fulltime program must be in session, what constitutes one-half day for purposes of the 10-day rule, and the appropriate divisor for calculating part-time ADM.

Agency's Response:

The Oregon Department of Education (ODE) generally agrees with the recommendations.

- *ODE will clarify the types of courses for which school districts may claim SSF reimbursement.*
- *ODE will clarify in administrative rule the basis for determining residency for purposes of school enrollment and SSF reimbursement, and will specify that a P.O. box address alone does not establish residency.*
- *ODE will clarify these policies and communicate the policies by updating and distributing the Oregon Student Personnel Accounting Manual.*

Objectives, Scope and Methodology

We conducted this audit at the request of the Department of Education. Our audit objectives were to describe the types of programs, students served and ADM claimed for alternative education programs in Oregon. In addition, our objective was to determine whether school districts' ADM claims for selected alternative education programs were appropriate, identify the factors that contributed to any inappropriate claims and determine the impact of any inappropriate claims on the State School Fund. We limited our review to the 2003-2004 academic year.

Describing Programs and Students Served

To describe the types of programs, students served and ADM claimed for alternative education, we conducted an online survey of program providers using a distribution list we created with the assistance of the Department of Education and the Department of Community Colleges and Workforce Development, through internet research, and through contact with district representatives. By consulting these sources, we attempted to compile as complete a distribution list as possible. However, since we cannot be sure the list is all-inclusive, the survey results may not be representative of all programs.

Selecting Programs for Review

In order to answer our second objective, we judgmentally selected four programs for review. In doing so, we considered several factors, including student population served, ADM reporting method and program operator.

The first program we selected was a small private program

servicing students at-risk of dropping out. The second was a large private program serving home schooled and non fulltime public school students. The third was a small program serving adjudicated youth that is operated cooperatively by an ESD, a community college and a county Department of Youth Services. The fourth was a medium sized program serving youth from diverse backgrounds who were not successful in the traditional educational system. This program had five sections, three operated by a school district and two operated by private entities.

Determining Appropriate Residency

To determine whether students lived within the boundaries of the district that claimed them for SSF reimbursement, we reviewed student records to identify addresses and tested the addresses using Geographic Information System (GIS) software. We accepted verified P.O. boxes in our GIS testing. We determined the underlying GIS data were sufficiently reliable for our audit purposes.

We provided districts with our residency findings and gave them the opportunity to provide inter-district transfer agreements or alternative addresses. When districts' mapping tools showed results that conflicted with our GIS residency determination, we assumed the districts' determinations were accurate.

We considered a claim inappropriate if a student's address was not within the boundaries of the district that claimed the student and there was no written consent of affected school districts for the 2003-2004 school year or referral form for the student. Our residency findings:

- include six instances in which the claiming school district provided new addresses that we found were inside the district,

but the district was unable to provide documentation of the addresses;

- include five instances in which the claiming school district alleged students lived within their boundaries, but was unable to provide any corroborating addresses;
- exclude one student for whom we could not determine the amount of ADM the nonresident district claimed; and
- exclude ten students with referral forms that did not contain the signatures of both affected districts who were not claimed for ADM due to the database problems we identified.

Determining Appropriateness of ADM Claims

To determine whether school districts' 2003-2004 ADM claims for the four programs were appropriate, we did the following:

- reviewed laws and rules governing student eligibility and ADM reporting for alternative education programs;
- reviewed districts' ADM claims for the programs we selected;
- reviewed program attendance records and the results of program ADM tracking tools;
- reviewed student information from program and district files; and
- interviewed program staff.

As part of our review of districts' ADM claims, we verified students were of the appropriate age to receive free public education. We also verified students existed by reviewing documentation in their student files.

Measuring Miscalculated ADM

To correct for database errors and flawed group size determinations at one program, we wrote queries for the program's attendance/ADM tracking database. We determined the attendance data and the number of student fields in the database were sufficiently reliable for our audit purposes. The program's database manager verified the query methodology we used on the corrected version of the database. This methodology was the basis for the query correcting for the program's questionable group size determination.

In the case of the public program that made inappropriate group size determinations, we used classroom attendance records to recalculate ADM using a group size based on the number of students in class per licensed instructor. We determined the electronic attendance records were sufficiently reliable for our audit purposes.

For the part-time program that claimed fulltime ADM, we used the program's classroom attendance records to calculate the ADM that should have been claimed for each student using the part-time ADM calculation method.

To calculate the impact of each audit finding, we subtracted the recalculated ADM figure from the ADM figure districts reported to the department for the 2003-2004 academic year.

Calculating SSF Paid in Error

Using department reports, we determined the general purpose grant amounts per ADM that districts received during our audit period. To determine the impact of our findings on SSF, we adjusted ADM amounts claimed in error to account for the fact that some students were included in more than one finding. By doing so, we avoided overstating the dollar amount districts should reimburse

for erroneous ADM claims. We then multiplied the adjusted inappropriate ADM identified for each district by the 2003-2004 general purpose grant amount per ADM. When calculating SSF associated with our findings, we did not include additional ADM that may have been paid to districts based on students' classifications as pregnant and parenting or English language learner.

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





**Secretary of State
Audits Division**

**255 Capitol St. NE, Suite 500
Salem, OR 97310**

**Auditing to Protect the
Public Interest and Improve
Oregon Government**

ASSISTANT AUDIT MANAGER: SANDRA HILTON, CPA

AUDIT STAFF: *Ben Wilson, CPA
Jennifer Scott, MPA
Elliot Shuford, MPA
Shanda LeVan, MPA
Marty Watson, MPA*

DEPUTY DIRECTOR: *William Garber, CGFM, MPA*

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

*This report, a public record, is intended to promote the best possible
management of public resources. Copies may be obtained:*

Internet: <http://www.sos.state.or.us/audits/index.html>

Phone: at 503-986-2255

*Mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310*