



Arizona Department of Education

The Audit Unit

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Average Daily Membership and Compliance Audit Report Sequoia Choice-Arizona Distance Learning— Technology Assisted Project-Based Instruction Program Fiscal Years 2006, 2007 and 2008

Report Number 10-2

Report Date: April 14, 2010

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April 14, 2010

Mr. Ron Neil, Superintendent
Sequoia Choice Schools, LLLP
1460 South Horne Street
Mesa, AZ 85204

Dear Mr. Neil:

The Arizona Department of Education Audit Unit has conducted an audit of the Sequoia Choice-Arizona Distance Learning's Average Daily Membership for Fiscal Years 2006, 2007 and 2008. The purpose of the audit was to determine whether the School properly reported and recorded student attendance, offered students sufficient statutorily-mandated instructional hours, whether it received the correct amount of State Aid and whether it properly maintained student records.

The audit found that the School did not accurately report its attendance to ADE for FY2006, FY2007 and FY2008. Additionally, the audit found that the School received monies for courses that were not eligible for State funding, and that some students did not receive sufficient instructional hours for FY2006, FY2007 and FY2008. The audit also found that the School failed to properly maintain some student records.

A.R.S. §41-1092.04 provides the School the opportunity to appeal the audit within 30 days after issuance. Appendix A in the report provides statutory references governing the appeal process.

Sincerely,

Arthur E. Heikkila
Chief Auditor

TABLE OF CONTENTS

	<u>PAGE</u>
Introduction and Background.....	1
Scope and Methodology.....	4
Finding 1: The School Did Not Accurately	
Report Attendance to ADE.....	6
Attendance Reporting Errors Found In Each Fiscal Year Audited.....	6
Reporting Errors Resulted In Over \$93,000 Owed to the School.....	6
Reporting Errors Occurred Due to the School Not Properly Submitting Attendance Data to SAIS.....	7
School Should Use ADE Data Guidance Documents, Reports and Staff to Ensure Accurate Attendance Data In SAIS	8
Recommendations	10
Finding 2: School Did Not Ensure Dual	
Enrollment Requirements Were Met	
By All Students	12
ADE Needs to Recoup Nearly \$61,000 in Overpayments.....	12
Students Must Attend Courses At the School’s or a JTED Campus	13
Students Must Be Enrolled Full-time Except For Seniors.....	13
Recommendations	14

TABLE OF CONTENTS (CONT'D)

	<u>Page</u>
Finding 3: Some Students Did Not Receive Sufficient Instructional Hours for FY2006, FY2007 and FY2008	15
Some Students Did Not Receive Sufficient Instructional Hours.....	15
Responsibility for Ensuring Sufficient Instructional Time Shared by Students, Parents or Guardians and School Officials.....	16
Recommendations	17
Finding 4: School Attendance Could Not Be Verified.....	18
School Failed to Maintain Daily Attendance Logs for Students Performing Schoolwork at Home	18
School Failed to Maintain Computer Sign-In Attendance Information for Students Working in Computer Labs	19
School Needs to Implement Policies to Comply with Attendance Reporting Requirements	20
Recommendation.....	20
Finding 5: Significant Problems with Student Records	21
School Did Not Properly Maintain Student Transcripts	21
School Failed to Properly Maintain Permanent Student Files	22
Recommendations	23

TABLE OF CONTENTS (CONT'D)

		<u>Page</u>
ADM Funding Adjustments		24
Appendix A		a-i
Tables:		
1	Sequoia Choice-Arizona Distance Learning Learning Labs by Location and Learning Labs and Home ADM FY2008	2
2	Sequoia Choice-Arizona Distance Learning Students, Staffing, Revenues and Expenditures FY2006, FY2007 and FY2008 (Unaudited).....	3
3	Sequoia Choice-Arizona Distance Learning Percentage of Students with Attendance Errors FY2006, FY2007 and FY2008	7
4	Sequoia Choice-Arizona Distance Learning Hours Over Reported, Reported ADM, Audited ADM and Funding Adjustment FY2006, FY2007 and FY2008	7
5	Sequoia Choice-Arizona Distance Learning Dual Enrollment Students, ADM and Overfunding FY2006, FY2007 and FY2008	12
6	Sequoia Choice-Arizona Distance Learning Student Full-Time Instructional Hours Analysis Students Only Attending the School for the Entire Fiscal Year FY2006, FY2007 and FY2008	16
7	Sequoia Choice-Arizona Distance Learning Student Files Missing Birth Certificates and Files that Appeared to be Compiled After Auditors' Request FY2006, FY2007 and FY2008	23

TABLE OF CONTENTS (CONCL'D)

	<u>Page</u>
Tables (Concl'd)	
8 Sequoia Choice-Arizona Distance Learning ADM and Funding Adjustments Required for FY2006, FY2007 and FY2008	24
 Figure	
1 Arizona Department of Education SAIS Data Submission and Processing Flowchart And Related Reports	9

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) has conducted an audit of the Sequoia Choice-Arizona Distance Learning School (School), in response to the October 2007, Technology Assisted Project-Based Instruction (TAPBI) performance audit conducted by the Arizona Office of the Auditor General (OAG). This audit was performed pursuant to the provisions of Arizona Revised Statutes (A.R.S.) §§ 15-239, 15-808 and 15-915 and the Arizona State Board for Charter Schools (SBCS) requirements. This audit focused on whether the School was ensuring that its TAPBI Program was in compliance with these requirements.

The Arizona OAG Report: “Technology Assisted Project-Based Instruction Program, October 2007”, found that the School was not able to provide information on the part-time status of its high school students so that compliance with minimum required instructional hours could be evaluated. The OAG audit recommended that ADE perform this audit to determine whether the School had sufficient student enrollment records to demonstrate compliance with attendance reporting requirements for funding.

Overview of Arizona’s Online Learning Program

Arizona’s TAPBI program was a distance-learning pilot program established in 1998 by the Arizona Legislature, “*to improve pupil achievement and extend academic options beyond the four walls of the traditional classroom.*” The TAPBI program was intended to provide technology-assisted education to students in kindergarten programs and grades one through twelve. The program was designed so that students could learn at home through the use of a computer and related materials with the support of their parents under the direction of a certified teacher or through the use of classroom computer laboratories (labs).

In 2009, the Legislature renamed the program Arizona Online Instruction (AOI) and removed its pilot status. At the time of the audit, the program was limited to seven school districts and seven charter schools. However, this change allows the Arizona State Board for Education (SBE) and the SBCS to select additional school districts and charter schools to participate in the program. Statewide, in FY2008, the 9,594 Average Daily Membership (ADM) for the TAPBI program generated approximately \$53.5 million in Basic State Aid funding.

Sequoia Choice-Arizona Distance Learning School’s TAPBI Program

The School, which began operating in August 1998, is a TAPBI school located in Mesa with several learning labs located in various parts of the State. The School provides distance education through classes offered in computer labs and through online instruction for students ranging from kindergarten programs through the twelfth grade. Additionally, the School collaborates with and provides educational services to other schools and entities, both public and private. In FY2008, the School had 1,083 students

enrolled in its TAPBI school. Table 1 lists the FY2008 ADM for students working at home and the FY2008 ADM for each learning lab by location.

Table 1

**Sequoia Choice-Arizona Distance Learning
Learning Labs by Location and Learning Labs and Home ADM
FY2008**

Students working in Labs:	Location	Student ADM	Total
Arizona Conservatory for Arts and Academics	Phoenix	1.12	
American Indian Prevention Coalition	Phoenix	10.62	
Circle of Health	Phoenix	8.74	
Desert Vision Youth Wellness Center	Sacaton	25.12	
Sequoia Choice	Mesa	7.67	
Joy Christian School	Glendale	402.91	
Learning Crossroad Basic Academy	Mesa	7.64	
Pathfinder Academy	Mesa	0.00	
Sequoia Ranch	Mayer	1.36	
Redwood Academy	Peoria	13.18	
Silver Creek Academy	Mesa	33.75	
Sequoia Family Learning	Mesa	0.02	
Sequoia Home School Resource Center	Show Low	36.18	
Sequoia School for the Deaf and Hard of Hearing	Mesa	0.00	
Star Performing Arts	Mesa	81.10	
Thunderbird Resource Center	Phoenix	38.32	
Sequoia Village	Show Low	34.61	
			702.34
Students working at Home	N/A		231.81
Total ADM:			934.15

Source: Arizona Distance Learning school records for FY2008.

Table 2 (see page 3) presents the School's financial, student and staffing information for FY2006, FY2007 and FY2008. As shown, student enrollment has grown from 667 in FY2006 to 1,083 in FY2008, and the School's funding has also increased from over \$3 million to over \$6 million during this same time period.

Table 2

**Sequoia Choice-Arizona Distance Learning
Students, Staffing, Revenues and Expenditures
FY2006, FY2007 and FY2008
(Unaudited)**

	FY2006	FY2007	FY2008
Students Enrolled	667	552	1,083
Total Staff	26	27	27
Revenue			
Local	\$1,695	\$3,795	\$13,334
State	3,023,025	5,120,330	5,991,992
Federal	0	0	0
Total Revenues	<u>\$3,024,720</u>	<u>\$5,124,125</u>	<u>\$6,005,326</u>
Total Expenditures	<u>\$2,754,441</u>	<u>\$4,893,806</u>	<u>\$5,828,847</u>

Source: "Annual Report of the Arizona Superintendent of Public Instruction," for FY2006, FY2007 and FY2008.

Scope and Methodology

The audit focused on whether the School reported its attendance data correctly to ADE, received the correct amount of Basic State Aid and was in compliance with statutory requirements for FY2006, FY2007 and FY2008. The specific issues audited are listed below, including the scope of work and methods used to address each issue:

- **Attendance Data**—To determine whether the School correctly reported student attendance data to ADE, auditors reviewed the entire population of students along with their associated attendance hours and database. This information was compared to the requirements contained within Arizona Revised Statutes Title 15 and ADE guidelines and to the ADE's Student Accountability Information System (SAIS). Auditors identified discrepancies between the attendance hours recorded in the School's database and the number of hours the School reported to SAIS, and determined the correct amount of Basic State Aid that the School should have received for FY2006, FY2007 and FY2008. Additionally, auditors identified reasons for the attendance reporting errors and ADE School Finance Unit resources that the School should use to help prevent these errors from occurring in the future.
- **Ineligible Classes**—Auditors reviewed a sample of 588 student transcripts and student cumulative files to identify students taking dual enrollment courses through a college or university. Auditors also reviewed applicable statutory requirements concerning dual enrollment courses and compared them to the School's practices of providing courses online through its labs around the State as well as from the students' homes. These records were compared to statutory requirements for eligibility for Basic State Aid funding.
- **Insufficient Instructional Hours**—To determine whether the students received the minimum number of instructional hours required, auditors first identified the number and grade for all students that attended the School for the full year and did not attend any other school during that timeframe. Auditors then determined the number of instructional hours reported for each of these students for the school year utilizing information from the attendance database provided by the School. These actual instructional hours reported per student were then compared with statutory minimum instructional hour requirements to determine if those students met the minimum requirements for instruction.
- **Attendance Verification**—To determine whether the School properly recorded and maintained students' attendance documentation, auditors reviewed the School's documents and systems used for attendance for students who worked at home and students who worked in the computer labs. These practices were then compared to the Uniform System of Financial Records (USFR) and statutory requirements to determine compliance.
- **Recordkeeping Practices**—To determine whether the School properly maintained student transcripts and permanent files, auditors reviewed a random sample of 475 student transcripts and student cumulative files. Auditors compared these records to the requirements in Arizona law to determine if the School maintained these records properly and that they included all of the required elements.

- **Statutory enrollment threshold**—For the fiscal years audited, A.R.S. § 15-808 had required that at least 80 percent of every TAPBI school’s students attend a public school during the previous year. Auditors determined that in FY2007, only 73 percent of the students had enrolled in and attended a public school in the previous school year. However, this statutory requirement was repealed effective August 26, 2009 and therefore is no longer in effect for this or any other TAPBI school.

The Audit Unit expresses its appreciation to the Sequoia Choice-Arizona Distance Learning Superintendent, Business Manager and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE SCHOOL DID NOT ACCURATELY REPORT ATTENDANCE TO ADE

The School misreported a significant amount of its student attendance data for the three fiscal years audited, resulting in inaccurate ADM calculations and Basic State Aid funding. The audit identified attendance reporting errors for FY2006, FY2007 and FY2008. As a result, the School was overfunded for two years, and underfunded for the other year. Errors occurred because the School did not properly submit its attendance data to SAIS, or resolve errors when notified by SAIS. To avoid ADM and funding errors in the future, the School needs to reconcile its attendance information to the corresponding data in SAIS and address discrepancies as necessary.

Attendance Reporting Errors Found In Each Fiscal Year Audited

Auditors found student attendance reporting errors in FY2006, FY2007 and FY2008. In FY2006 and FY2007, the School over-reported attendance hours, and under-reported attendance hours in FY2008. As a result, the School should receive a net positive funding adjustment of approximately \$93,000.

Thirty percent of students had attendance errors—Auditors identified attendance reporting errors for the student population, ranging from 25.41 to 36.84 percent for the three fiscal years audited. An attendance reporting error was defined as a difference in hours recorded in the School’s attendance database per student and the hours reported for that student in ADE’s SAIS system.¹ The unduplicated attendance error total for the three years audited was 30.03 percent. Table 3 (see page 7) lists the number and percentage of students with attendance errors for the three fiscal years audited.

Reporting Errors Resulted In Over \$93,000 Owed to the School

Because the attendance hours reported by the School were incorrect for the three fiscal years audited, this resulted in a net understatement of 17.598 ADM. Due to these inaccuracies, the School did not receive the correct funding amounts for FY2006, FY2007 and FY2008. For FY2006 and FY2007, the funding the School received was higher than it should have been. For FY2006, the funding should be reduced by \$34,940.62 and for FY2007 it should be reduced by \$188,741.64. However, because the funded ADM was lower than it should have been in FY2008, the funding for that year should be increased by \$317,655.88. As shown in Table 4 (see page 7), this results in a net overall funding adjustment increase of \$93,973.62.

¹ Attendance reporting errors were defined and calculated per student as a difference between total hours reported for the fiscal year as recorded on the School’s attendance database as compared to the total hours recorded in SAIS. In addition, auditors had to presume the accuracy of the School’s attendance data. This is because auditors could not validate the accuracy of the attendance reported in the School’s attendance log because the School did not utilize or maintain daily attendance logs or computerized sign in/sign out sheets as required by statute and the USFR (see Finding 4, pages 18 through 20).

Table 3

**Sequoia Choice-Arizona Distance Learning
Percentage of Students with Attendance Errors
FY2006, FY2007 and FY2008**

	Total Students	Students with Errors	Percentage of Students With Errors
2006	1,315	337	25.63%
2007	2,348	865	36.84%
2008	2,208	561	25.41%
Total	5,871	1,763	30.03%

Source: Auditor analysis of Sequoia Choice-Arizona Distance Learning attendance records and ADE SAIS attendance data for Arizona Distance Learning.

Table 4

**Sequoia Choice-Arizona Distance Learning
Hours Over Reported, Reported ADM, Audited ADM
and Funding Adjustment
FY2006, FY2007 and FY2008**

	FY2006	FY2007	FY2008	Total
Hours Over Reported	2,442.00	34,136.00	(62,993.00)	(26,415.00)
Reported ADM	462.995	808.590	934.540	2,206.125
Audited ADM	456.642	775.196	991.885	2,223.723
Difference:	(6.353)	(33.394)	57.345	17.598
Funding Adjustment	(\$34,940.62)	(\$188,741.64)	\$317,655.88	\$93,973.62

Source: ADE CHAR55-1 reports for FY2006, FY2007 and FY2008, and analysis of School records.

Reporting Errors Occurred Due to the School Not Properly Submitting Attendance Data to SAIS

Misreporting occurred because 1) School staff did not follow correct procedures for submitting changes to attendance data, 2) the School's automated system for maintaining attendance data did not properly process the data, and 3) the School failed to ensure attendance data was submitted and accepted in SAIS.

- **FY2006**— Auditors found that data reporting errors occurred primarily because the School failed to follow correct procedures for submitting attendance data changes to SAIS. For example, some original data problems were a result of some students reporting all of their instructional hours for the week in the "Monday" column, rather than reflecting the actual hours worked each day. The School did identify these data problems and attempted to correct its data by resubmitting the students' actual hours worked for each day. However, it did not use the correct SAIS reporting code. Rather than submitting the data under the "change" code, the School used the "new data" code. While SAIS can accept new information for the days where there was no previous attendance reported, it cannot replace the previously reported attendance with the new information unless this new data is submitted as a change. As a result, SAIS kept the 20 hours initially reported for Monday, and also

added the additional hours for the other days that were not previously reported. This led to the School over-reporting 2,442 attendance hours for FY2006.

- **FY2007**—Errors for this fiscal year can be attributed to the School not properly correcting errors generated by its attendance data conversion program, which was written and utilized by the School. The School developed this program to aggregate its attendance reporting log information and convert it into a file that could then be uploaded to ADE's SAIS system. During the course of the FY2007 school year, the School identified a problem with its conversion program, but did not fully correct the attendance errors generated. The program incorrectly assigned attendance data to the wrong days of attendance. Specifically, the conversion program assigned attendance hours for students on days that did not have attendance recorded on the School's original attendance log. In fact, the review of a sample of 236 original student attendance records compared to what the School reported to SAIS found that 179 of the 236 students sampled had attendance reported to SAIS for days that the original attendance log indicated zero hours attended. After the School identified this problem, it corrected its conversion program. However, the School failed to delete from SAIS the hours that were reported incorrectly. Our review determined that there were an additional 34,136 over-reported hours that were not corrected by the School for FY2007.
- **FY2008**—The School under-reported student attendance in FY2008 for several reasons:
 - The School simply failed to submit some attendance reports to SAIS.
 - The School failed to submit to SAIS any information that had been entered into the School's attendance database after the end of the fiscal year.
 - The School failed to submit to SAIS revised attendance information that had been initially rejected through SAIS' integrity process. Although the School corrected these errors in its own attendance system, it failed to resubmit the corrected attendance data to SAIS.
 - The School failed to properly resubmit to SAIS enrollment information for some students. As a result, SAIS deleted all of the existing attendance information for these students and only retained the new information.

As a result of these errors, the School underreported its hours for FY2008 by 62,993.

School Should Use ADE Data Guidance Documents, Reports and Staff to Ensure Accurate Attendance Data In SAIS

To help ensure that the SAIS data is accurate, the School needs to regularly reconcile its own original attendance data with its attendance data in ADE's SAIS system. ADE's School Finance Unit has developed several documents and reports and has designated specific staff members to assist schools in ensuring data accuracy.

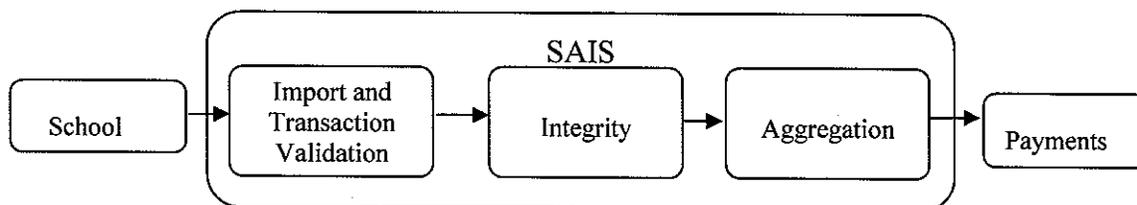
School Finance attendance-reporting guidance documents—The School needs to review and utilize the following ADE School Finance documents to help ensure the accuracy of its attendance data. These

are “SAIS Online Users Guide”, “Student Accountability Information System Basic Guide: Understanding and Verifying Your Reported Membership Counts” and “Student Accountability Information System Student Database Transaction Requirements”. These documents provide important guidance for submitting and verifying accuracy of submitted attendance data and can be accessed through the ADE School Finance website (www.ade.az.gov/schoolfinance).

School Finance reports—In addition to using the School Finance guidance documents, the School needs to understand and utilize the various reports that are generated by SAIS after each SAIS data processing step occurs. These reports provide important information regarding whether all or part of a school’s data submission was accepted or rejected by SAIS and the reasons for the rejection. Figure 1, provides a brief overview of the steps in the SAIS data process, a description of the purpose of each of the steps and a description of the SAIS reports that schools can use to reconcile their data with SAIS. These reports are available from SAIS through ADE’s automated “Common Logon,” and are essential for schools to ensure that their attendance data is accurate in SAIS.

Figure 1

**Arizona Department of Education
SAIS Data Submission and Processing Flowchart
And Related Reports**



School prepares data in order to submit to SAIS

File formatting and transactions are preliminarily checked before importing into SAIS

Data goes through integrity checks to validate for funding

Data is aggregated into membership days and fundable counts for the schools

Data is processed to determine payment amount

ADMS 71 Report—A report for each student contains daily attendance information that has been imported

ADMS 72 Report—The report contains all students and the total attendance imported for each student, as well as the status of integrity

ADMS 75 Report—The report contains the ADM for all students that have passed integrity and will be funded

Student Integrity Status Report—Contains a description of all integrity failures

Source: ADE School Finance Unit information and interviews with ADE School Finance staff.

Using the reports to ensure attendance data accuracy—The School needs to compare its submitted attendance information with the SAIS attendance information after the integrity checks as found on the above-mentioned reports. Specifically:

- The ADMS 71 Report provides daily attendance information for each student that passed the initial or “import” integrity checks within SAIS. The initial integrity check within SAIS rejects data submissions that do not meet various SAIS requirements. The School can compare its original attendance submittal information to the ADMS 71 Report data to determine if any of its attendance data was rejected. If rejected, the School should then resubmit the data in a format that is acceptable to SAIS.
- The ADMS 72 Report provides a summary of attendance data that passed the second and most comprehensive integrity check within SAIS. The School needs to compare its original attendance data to the data in the ADMS 72 Report to determine if SAIS rejected any of its reported attendance data. If so, then the School should resubmit the attendance data in a format that SAIS will accept.
- To assist schools in identifying attendance data not accepted by SAIS’ second integrity check, School Finance has developed “*The Student Integrity Status Report*”. This report provides a list and description of all the errors or rejected data per student after the data passes through the second SAIS integrity check. This report should be used in conjunction with the ADMS 72 Report to identify and resolve attendance data problems.

School should obtain guidance from its School Finance account analyst—In December 2009, ADE’s School Finance Unit designated four staff members as account analysts to assist schools with questions concerning their attendance data. Account analysts can provide school districts and charter schools with clarification and answers to questions relating to the School Finance attendance reporting guidance documents and School Finance reports. To help ensure the accuracy of its attendance data in the future, the School should contact its account analyst and obtain guidance and clarification as necessary.

According to School officials, they have taken steps to correct data error problems, and are utilizing the various SAIS-related resources mentioned above. School officials also noted two challenges with ensuring accurate data within SAIS. These include SAIS “work rules” changing during the course of the school year, and SAIS not being available for school use to analyze and make corrections.

Recommendations:

1. The School needs to ensure that the hours it reports to SAIS are accurate by:
 - a. Verifying that its attendance information in ADE’s SAIS system matches the information found in its student attendance log;
 - b. Utilizing the reports and other information available from SAIS and ADE to identify and reconcile attendance differences between SAIS and the School’s original attendance information; and
 - c. Following correct procedures for submitting attendance data changes to SAIS.

2. ADE needs to positively adjust the funding to the School by \$93,973.62 to reflect the revised ADM calculations based on the audited attendance amounts determined in this audit.

FINDING 2: SCHOOL DID NOT ENSURE DUAL ENROLLMENT REQUIREMENTS WERE MET BY ALL STUDENTS

The School applied for and received funding for some dual enrollment classes that did not meet statutory requirements for payment. As a result, ADE needs to recoup from the School the nearly \$61,000 in ADM overpayments for students found ineligible for dual enrollment funding. The School did not ensure that the students met dual enrollment statutory requirements for either where the student should attend the class or the need to be enrolled as a full-time student, except if the student is in his or her senior year.

Dual enrollment classes allow students to receive both high school and college credit. According to the School's website in August 2009, the School offered full-time students the opportunity to take dual enrollment courses if they met specified requirements. Classes that meet statutory and intergovernmental agreement requirements for dual enrollment allow a high school to receive ADM funding and a community college to report full-time student equivalent status for funding purposes. Dual enrollment is the only method allowed by statute for schools to receive ADM funding for students receiving both high school and college credit for a course. Therefore, courses that do not meet all dual enrollment requirements do not qualify for ADM funding.

ADE Needs to Recoup Nearly \$61,000 in Overpayments

As a result of classes not meeting requirements for dual enrollment, the School was overpaid \$60,985.70 in Basic State Aid. Auditors sampled 588 students to test compliance and found problems with dual enrollment. For students taking dual enrollment courses, the review found that most students taking these courses (23 out of 28 found in the sample) were ineligible because they did not meet statutory requirements for dual enrollment courses. Table 5 lists the number of students from the sample eligible or ineligible for funding based on auditor analysis of their dual enrollment courses, the ineligible ADM and the associated overfunding for the three fiscal years audited.

Table 5

**Sequoia Choice-Arizona Distance Learning
Dual Enrollment Students, ADM and Overfunding
FY2006, FY2007 and FY2008**

	FY2006	FY2007	FY2008	Total
Sample	131	236	221	588
Students with eligible dual enrollment courses	0	3	2	5
Students with ineligible dual enrollment courses	3	11	9	23
Ineligible ADM	1,404	4,133	5,004	10,541
Overfunding	\$7,602.20	\$23,741.21	\$29,642.29	\$60,985.70

Source: Auditor analysis of a sample of the School's student files and financial records, and ADE attendance and payment data.

Students Must Attend Courses At the School's or a JTED Campus

A review of a sample of student files found that some students taking dual enrollment courses were not meeting statutory attendance requirements. A.R.S. § 15-101 (11) defines a dual enrollment course as *“a college level course that is conducted on the campus of a high school or on the campus of a joint technological education district”* (JTED). Therefore, in order for a class taken through a college to qualify to be funded as a dual enrollment course, students must attend the class on the campus of the high school or JTED.

Our review found that some students were not taking their dual enrollment courses at the proscribed high school or JTED campuses. Instead, these students were taking these courses either through their home computer or by physically attending a community college campus. For example:

- One student attended the majority of classes at a community college. Beginning in their sophomore year, of the 25 high school credits earned, 18.5 were claimed as dual enrollment credits received from college courses. However, the student did not attend these college courses on the School's campus as required by statute. Therefore, these classes were not eligible to be funded as dual enrollment.
- During one student's senior year, of the 15 classes that were taken, 13 of these were not offered by the School. The majority of these were taken on the campus of Mesa Community College. These classes also included many electives such as “Strategies for College Success” and “Rock Music and Culture.”

Students Must Be Enrolled Full-time Except For Seniors

A review of a sample of high school students also found that the School did not ensure that some dual enrollment students met full-time enrollment requirements. A.R.S. § 15-1821.01 (7) states that *“A school district shall ensure that a pupil is a full-time student as defined in section 15-901 and is enrolled in and attending a full-time instructional program at a school in the school district before that pupil is allowed to enroll in a college”*. Thus, in order for a student to take any classes for dual enrollment, they must first be enrolled in the School full time. The only exception to this requirement is for seniors, who must be enrolled in at least one class offered by the School.

Our review found that some of the students taking dual enrollment classes were not taking the required full-time schedule at the School. Freshmen, sophomores and juniors must take a full schedule of at least four classes through the School before they would be eligible to take any dual enrollment classes. However, auditors found that some students were taking few, if any, classes that were offered by the School. In addition, although seniors must be enrolled in at least one class at the School to qualify for dual enrollment, our review found that some were enrolled only in classes through a college for the year. As a result, these students would not qualify for dual enrollment at the School. For example:

- One student was enrolled at the School from FY2002 through FY2007 and took classes for six years. The only time this student attended non-college classes for dual enrollment was in their

freshman year and their final year. During the other years, this student only attended college classes, primarily community college classes on the college campus. Because this student attended no classes offered by the School during this time, he should not have been eligible to take dual enrollment classes, and so the School should not have received Basic State Aid for this student.

- A student who had attended the School since his freshman year had taken most of his classes from Northland Pioneer College. Of the 31 classes taken during his time at the School, 23 of these were through a college. In addition, this student was not taking a full schedule through the School before enrolling in the college classes, and so should not be eligible for dual enrollment.
- Another student attended almost entirely Northland Pioneer College classes during his sophomore year. Nine of the 10 classes taken were through the college, with the only class taken at the School being “Teacher Aide.” Since this student did not have a full schedule at the School, and attended the classes on the college campus, he is not eligible for dual enrollment.

Recommendations:

1. ADE should recoup the \$60,985.70 in funding provided for ineligible dual enrollment classes.
2. The School should ensure that it complies with statutory requirements for dual enrollment classes including:
 - a. Students attend dual enrollment courses either at the campus of a high school or the campus of a joint technological education district; and
 - b. Statutory eligibility requirements regarding enrollment.

FINDING 3: SOME STUDENTS DID NOT RECEIVE SUFFICIENT INSTRUCTIONAL HOURS FOR FY2006, FY2007 AND FY2008

The audit determined that some students did not receive sufficient instructional hours.² For the three fiscal years audited, the audit found that 21.17 per cent of the students solely attending the School for the entire school year did not meet statutory requirements for full-time enrollment status. Because statutes deem TAPBI student enrollment be based on attendance, the responsibility for students receiving sufficient instructional hours rests with the students, parents, and school officials to ensure that students are accruing the number of instructional hours required by law.

In contrast with traditional “brick and mortar” schools, TAPBI student enrollment for funding purposes is dependent upon the hours reported by the student. TAPBI students must report their hours worked on academic tasks to the school on a weekly basis. The school compiles this information and reports it to ADE. ADE then, based on the number of hours reported, determines each student’s enrollment status and funds the school accordingly. On the other hand, traditional schools’ student enrollment and funding is determined by the instructional time scheduled each week and cumulatively for the school year. For these schools, attendance only impacts the school’s funding if the total absences for the school exceed statutorily-defined thresholds.

Some Students Did Not Receive Sufficient Instructional Hours

While statutes require that students receive a minimum number of instructional hours to be considered full-time, the audit identified some of the School’s students who did not meet these requirements. As a result, student achievement could be negatively impacted because of insufficient instructional time.

Some students attending the entire year did not meet statutory instructional hour requirements— Auditors found that many of the students who solely attended the School for the entire year did not receive the statutorily-required number of instructional hours to be considered full-time status. Although the School does offer enough instructional hours to students, as shown in Table 6 (see page 16), auditors identified a total of 152 students out of 718 students, or 21.17 percent, who attended the entire year but did not meet the statutory instructional hour requirements for FY2006 through FY2008.

*Negative impact on student achievement—*Students who do not accumulate the required amount of instructional hours could potentially be impacted academically. Assuming that the more time students spend doing school work results in greater learning, not accumulating the required minimum number of instructional hours could potentially limit student achievement.

² This Finding addresses the recommendations by the OAG (Auditor General Report on Technology Assisted Project-Based Instruction Program, October 2007) that ADE perform follow-up work to: “...ensure that TAPBI courses provide students with at least the minimum instruction hours required by statute”, and “...determine whether Arizona Distance Learning ...ha(s) sufficient student enrollment records to demonstrate compliance with statutory minimum instruction hour requirements.”

Table 6

**Sequoia Choice-Arizona Distance Learning
Student Full-Time Instructional Hours Analysis
Students Only Attending the School for the Entire Fiscal Year
FY2006, FY2007 and FY2008**

	Hours Required For Full-time Status (a)	FY2006		FY2007		FY2008		Percentage by Grade Who Did Not Meet Hours for the Three Years Audited
		Students Who Met Required Hours	Students Who Did Not Meet Hours	Students Who Met Required Hours	Students Who Did Not Meet Hours	Students Who Met Required Hours	Students Who Did Not Meet Hours	
KG	356	3	0	10	0	5	0	0.00%
1	712	8	1	13	0	8	0	3.33%
2	712	10	0	13	1	14	1	5.13%
3	712	8	1	11	0	14	1	5.71%
4	890	6	1	6	0	18	0	3.23%
5	890	5	0	10	1	11	2	10.34%
6	890	3	0	6	1	13	2	12.00%
7	1,068	15	5	10	2	7	3	23.81%
8	1,068	5	5	26	7	13	8	31.25%
9	720	16	3	21	6	44	2	11.96%
10	720	13	7	25	1	29	14	24.72%
11	720	24	13	19	8	44	7	24.35%
12	720	13	21	23	10	24	18	44.95%
Total		129	57	193	37	244	58	21.17%

(a) A.R.S. §15-901 requires schools to provide students at least a specified amount of instructional hours to be considered full-time students. These statutory requirements are summarized in ADE's Guideline GE-18. Some 12th grade students may only be enrolled part-time to accrue the remaining credits required for graduation.

Source: Analysis of the School's and ADE SAIS enrollment and attendance data for FY2006, FY2007 and FY2008.

Responsibility for Ensuring Sufficient Instructional Time Shared by Students, Parents or Guardians and School Officials

Students, parents or guardians and school officials all need to help ensure that TAPBI students receive sufficient instructional hours. Because TAPBI school students do not have regularly scheduled classes, the student and parent or guardian are primarily responsible to ensure that students spend sufficient time each week to not only maintain a student's full-time status but also to help ensure academic achievement. The School reported that it had a process to monitor students' instructional hours and that staff followed up with teachers, parents or guardians whenever students' instructional hours were deficient. However, this audit identified many students who received less than the required number of instructional hours.

School officials should strengthen the School's current processes to communicate and monitor students' reported instructional hours. If students report less than full-time hours during a particular week, School officials should address this issue in a timely manner with the student and parent or guardian.

Recommendations:

1. TAPBI students, parents or guardians and school officials need to ensure that students receive sufficient instructional hours.
2. School officials need to strengthen their processes to monitor and address any shortages in instructional hours reported.

FINDING 4: SCHOOL ATTENDANCE COULD NOT BE VERIFIED

Since the School failed to maintain required attendance documentation, auditors could not verify that the school's attendance data was accurate for funding purposes. Although statute and the Uniform System of Financial Records (USFR) guidelines require daily attendance logs or computer "sign-in/sign-out" sheets, the School failed to properly collect and maintain these records. This lack of documentation or "audit trail" increases the potential for misreported attendance, and thus, inaccurate distribution of Basic State Aid funding. The School should adopt and implement a policy for taking attendance and maintaining proper attendance documentation that complies with statute and USFR guidelines.

School's attendance-taking and reporting processes different from traditional schools—Online schools, such as the School, have attendance-taking and reporting processes that differ significantly from traditional "brick and mortar" schools where teachers take students' attendance. Since students attending school from home access the School's curriculum utilizing the internet, their coursework and teacher communication occur primarily through this medium. To report their attendance, these students should utilize a daily log, which they should regularly send to the School. Students that live near a School facility have the option of attending computer labs, which provide direct computer access to the School's curriculum, and also provide a School employee to oversee the lab and assist with questions and other matters. Students attending one of the School's computer labs may utilize computer sign-in/sign out sheets to report their attendance.

School Failed to Maintain Daily Attendance Logs for Students Performing Schoolwork at Home

The School was out of compliance with statutes and USFR guidelines because it did not maintain daily attendance logs for students performing schoolwork at home. Arizona statutes and the USFR require TAPBI schools to utilize daily attendance logs. However, even though the School had developed a daily attendance log for student and parent use, they were seldom used. Instead, the School relied upon emails and phone calls to acquire attendance information. As a result, the audit could not verify the accuracy of reported attendance data.

Statutory and USFR requirements for daily attendance logs—

- According to A.R.S. § 15-808 (E):

"Each school selected for Arizona online instruction shall ensure that a daily log is maintained for each pupil who participates in Arizona online instruction. The daily log shall describe the amount of time spent by each pupil participating in Arizona online instruction pursuant to this section on academic tasks. The daily log shall be used by the school district or charter school to qualify the pupils who participate in Arizona online instruction in the school's average daily attendance calculations pursuant to section 15-901."

- In addition to statute, USFR guidelines maintained and developed by the OAG encourage TAPBI schools to provide each parent or guardian with a copy of a daily log developed and distributed by the OAG, as well as instructions for completing the log.³ The log must be completed daily by the parent or guardian and filed weekly with the school. However, if a school is able to track a student's hours using computer login times and generate a report of those hours, the TAPBI school may use this report in place of the log.

School did not use daily logs for off-site students—Rather than use daily attendance logs as required by statute, the School relied upon emails and phone calls to obtain student attendance information. This information was then entered onto a spreadsheet used to record, by individual student, the hours spent each day on academic tasks. The spreadsheet attendance information was then entered into the School's automated attendance system which in turn uploaded the information to ADE's SAIS system.

School attendance information could not be verified due to non-compliance with statute and USFR guidelines—The School's attendance recording practices violated state statutes, rules and USFR requirements. Both state statutes and the USFR mandate use of daily attendance logs, and the School failed to meet these requirements. In addition, the School failed to maintain attendance information for four years, as required by state records retention requirements for schools. As a result, auditors did not have any original attendance documentation to verify the School's reported attendance. In addition, the School failed to maintain original attendance documentation that they did use in lieu of daily logs, such as emails and phone calls, which could have also been used to validate reported attendance.

School Failed to Maintain Computer Sign-in Attendance Information for Students Working in Computer Labs

In addition to finding that the School failed to maintain proper documentation for students working at home, auditors determined that the School also failed to maintain required documentation for campus-based students. For students working from one of the School's computer lab sites, the teacher at the site utilized a manual sign-in and sign-out sheet. This information was then provided to the attendance staff to transfer to the official attendance log. However, manual sign-in sheets differ from computer-based login times required by USFR guidelines because they did not reflect the actual time spent on academic tasks as required by USFR Memorandum No. 220 but instead simply reflected the time that the student was manually signed onto the School's system.⁵ While the requirements specified that computer login times may replace a daily log only if the School can track the student's hours and generate a report of those hours, the School did not have such a system in place to meet these requirements. Thus, the School was not in compliance with USFR attendance reporting requirements and auditors could not verify the validity of the School's reported attendance.

³ USFR Memorandum No. 220, USFR Memorandum No. 232 (addendum to USFR Memorandum No. 220) and USFR Memorandum No. 244 (Supersedes USFR Memorandum Nos. 220 and 232).

School Needs to Implement Policies to Comply with Attendance Reporting Requirements

The School should adopt and implement policies for taking attendance and maintaining attendance documentation for both students working at home and students who utilize School labs and classrooms. To ensure compliance with statute and USFR guidelines, the School should adopt and implement policies to maintain a daily log or a system that tracks computer login times that can generate reports of those hours, or both. Additionally, these policies should specify the supporting documentation that the School needs to maintain in order to comply with statute and USFR guidelines.

Recommendation:

1. The School should adopt and implement policies for taking attendance and maintaining proper attendance documentation for both students participating from home and students who utilize School labs and classrooms that comply with statute and USFR guidelines.

FINDING 5: SIGNIFICANT PROBLEMS WITH STUDENT RECORDS

The School has experienced significant problems maintaining important student records. Student transcripts, which are the primary documentation of a student's class enrollment and achievement, were either missing, had multiple versions in the file or lacked important information. In addition, some student cumulative files were missing important information such as birth certificates. The School should ensure that these records are properly maintained and updated and that student files contain all of the statutorily-required information.

School Did Not Properly Maintain Student Transcripts

The School needs to address problems identified with its student transcripts. Complete and accurate student transcripts are not only required by the State's record retention requirements, but also play a vital role in monitoring and documenting a student's progress through school. This review found numerous transcript problems from a review of a sample of student records. It appears that many of the transcript problems were due to the School's failure to develop and implement processes to ensure accurate and available transcripts.

Transcripts are important educational records for students and the education system—All schools need to maintain correct and current transcripts for all students, since some students may transfer to another school, enroll in a community college or university or need to have proof of courses taken and grades received in order to obtain employment. Further, every school needs transcripts to record students' courses and grades to ensure that students are taking the appropriate classes to help them progress toward graduation. The State's record retention requirements mandate that schools maintain permanent files of student transcripts. In addition, A.R.S. § 15-743 requires the AIMS scores of high school students to be placed on their school transcripts.

Numerous transcript problems found—The School was unable to provide auditors with all of the requested transcripts in a timely manner, and when they were provided, many were incomplete or included incorrect information. Specifically, auditors requested a sample of 475 student transcripts for FY2006, FY2007 and FY2008 in February 2009; however, it took the School almost four months to completely fulfill this request.

Many of the transcripts provided to auditors were incomplete or contained incorrect information. Specifically:

- Some transcripts did not contain important information such as the student's previous schools attended, a complete schedule of classes taken or any classes taken during the current school year.
- 74 of the 475 transcripts sampled were not in transcript form, but were instead in "report card" form and did not contain the student's SAIS number that is used to track students.

- Many transcripts did not contain the student's entry and exit date or incorrectly had the same date listed for the student's entry and exit date.
- Some transcripts incorrectly listed the same classes multiple times within the same school year.
- In some cases, the School provided multiple versions of the same student's transcripts. As a result, auditors had to request clarification from the School to determine which version was correct. For example, one student for FY2007 was reported as .927 ADM. However, the transcript auditors first received for this student listed no classes for FY2007 and only one class for FY2008. Auditors requested a complete transcript for this student with all information and received a second version of this transcript with seven classes added for FY2008. After auditors questioned why no classes were listed for FY2007, the School then sent auditors a third version of this student's transcript that was significantly different than both of the prior versions. Specifically, the third version of the transcript moved the seven classes that had been added to the previous version from FY2008 to FY2007, added two additional classes for FY2007 and added five for FY2008. Additionally, the grade for the single class originally listed on the transcript was changed from a B minus to Withdrawn.

School agrees transcript problems needed to be addressed and has corrected them—The School needs to appropriately manage student transcripts. When this issue was brought to their attention during the audit, School officials stated that its data system limited their ability to manage certain student records such as transcripts. According to School officials, the two types of programs students could be enrolled in, labs and online programs, were served by only one data system that was not designed to track transcript data for the School's online program. As a result, School officials stated that the transcripts were maintained manually. According to School officials, since the audit, the School has developed and implemented a system to maintain an accurate and updated transcript for each student.

School Failed to Properly Maintain Permanent Student Files

The School did not ensure that its permanent student files contained all of the statutorily-required documents. Additionally, many of the School's files appeared to be put together only after auditors requested them.

Files missing proof of identity—Although required by statute to obtain each student's proof of identity, the School failed to do so for a significant number of students. Specifically, according to A.R.S. § 15-828, each school must have proof of every pupil's identity and age. This proof may be provided by a birth certificate or other identifying records. However, auditors reviewed 475 student cumulative files and identified that the School failed to obtain the required proof of identity documentation for 70 students.

Files appeared to be assembled after auditor requests—Auditors identified many student files that appeared to be put together only after auditors requested them. As shown by Table 7 (see page 23), auditors identified 33 files, or six percent of the sample, that appeared to have been compiled after auditors requested them. These files were missing all of the other statutorily-required documents, including proof of residency and age.

Table 7

**Sequoia Choice-Arizona Distance Learning
Student Files Missing Birth Certificates and
Files that Appeared to be Compiled After Auditors' Request
FY2006, FY2007 and FY2008**

	FY2006	FY2007	FY2008	Total¹
Total Number of Students Sampled	131	236	221	475
Missing Birth Certificate	16	24	36	70
Percentage of Students Missing Birth Certificate	12 %	10%	16%	14%
Total Number of Files That Appeared to be Compiled After Auditors' Request	4	4	25	33

¹ Because some student files were selected for sampling for two or more of the three years sampled, the number in the total column may not match the sum of the numbers for the three fiscal years.

Source: Auditor analysis of School student cumulative files.

The School should ensure student permanent files are complete—Because student permanent files need to be maintained according to statutory requirements, the School should address this issue and ensure that all files are complete. Specifically, the School needs to ensure that each student enrolled has a permanent file. Additionally, the School needs to review each student's permanent file for completeness and obtain additional documentation as necessary.

Recommendations:

1. The School should update and maintain current student transcripts.
2. The Schools should ensure that each student has a permanent file.
3. The School should ensure that student permanent files contain statutorily-required proof of identify and age, which needs to be met with a copy of the student's birth certificate or other identifying records.

ADM FUNDING ADJUSTMENTS

This audit identified an overall funding adjustment of \$32,987.92 that the School will receive from ADE for the three fiscal years audited. The School incorrectly reported attendance hours and improperly classified Dual Enrollment classes, which resulted in the School's ADM being understated by a total of 7.057 and the School not receiving the appropriate amount of funding for the three fiscal years audited.

For FY2006 and FY2007, the School over-reported its attendance hours, which resulted in an overstating of its ADM by 6.353 and 33.394, respectively. Additionally, the School underreported its attendance hours for FY2008, resulting in an understatement of ADM by 57.345. Because the School did not classify Dual Enrollment courses properly, its ADM was overstated by a total of 10.541 for all three fiscal years audited.

Statutes and rules provide for a formal appeal process through the Office of Administrative Hearings if the School disagrees with the audit results. The School has 30 days from the issuance of the audit report to request an appeal. Appendix A (see page a-i) presents rules that govern the appeal process.

Table 8 presents the net ADM adjustments and associated Basic State Aid adjustments for the School for FY2006, FY2007 and FY2008.

Table 8

**Sequoia Choice-Arizona Distance Learning School
ADM and Funding Adjustments
Required for
FY2006, FY2007 and FY2008**

	FY 2006		FY 2007		FY 2008		Total	
	Overstated ADM	Amount	Overstated ADM	Amount	Overstated ADM	Amount	Overstated ADM	Amount
Hours	6.353	\$34,940.62	33.394	\$188,741.64	(57.345)	(\$317,655.88)	(17.598)	(\$93,973.62)
Dual Enrollment	1.404	\$7,602.20	4.133	\$23,741.21	5.004	\$29,642.29	10.541	\$60,985.70
Totals	7.757	\$42,542.82	37.527	\$212,482.85	(52.341)	(\$288,013.59)	7.057	(\$32,987.92)

Source: Auditor analysis of SAIS and School student and financial data for FY2006, FY2007 and FY2008.

APPENDIX A

State Rules for Appealing Audits

The audit determination pursuant to A.R.S. § 15-915 is an agency action for which you can file an appeal. The audit report and cover letter, along with this information, serves as notice of your appeal rights under A.R.S. § 41-1092.04. Your right to a hearing and right to an informal settlement conference are described below in the Arizona Revised Statutes.

A.R.S. § 41-1092.03. Notice of appealable agency action; hearing; informal settlement conference; applicability

- A. An agency shall serve notice of an appealable agency action pursuant to section 41-1092.04. The notice shall identify the statute or rule that is alleged to have been violated or on which the action is based and shall include a description of the party's right to request a hearing on an appealable agency action and to request an informal settlement conference pursuant to section 41-1092.06.
- B. A party may obtain a hearing on an appealable agency action by filing a notice of appeal with the agency within thirty days after receiving the notice prescribed in subsection A of this section. The notice may be filed by a party whose legal rights, duties or privileges were determined by the appealable agency action. A notice of appeal also may be filed by a party who will be adversely affected by the appealable agency action and who exercised any right to comment on the action provided by law or rule, provided that the grounds for appeal are limited to issues raised in that party's comments. The notice of appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. The agency shall notify the office of the appeal and the office shall schedule a hearing pursuant to section 41-1092.05, except as provided in section 41-1092.01, subsection F.
- C. If good cause is shown an agency head may accept an appeal that is not filed in a timely manner.

A.R.S. § 41-1092.06. Appeals of agency actions; informal settlement conferences; applicability

- A. If requested by the appellant of an appealable agency action, the agency shall hold an informal settlement conference within fifteen days after receiving the request. A request for an informal settlement conference shall be in writing and shall be filed with the agency no later than twenty days before the hearing. If an informal settlement conference is requested, the agency shall notify the office of the request and the outcome of the conference, except as provided in section 41-1092.01, subsection F. The request for an informal settlement conference does not toll the sixty day period in which the administrative hearing is to be held pursuant to section 41-1092.05.
- B. If an informal settlement conference is held, a person with the authority to act on behalf of the agency must represent the agency at the conference. The agency representative shall notify the appellant in writing that statements, either written or oral, made by the appellant at the conference, including a written document, created or expressed solely for the purpose of

settlement negotiations are inadmissible in any subsequent administrative hearing. The parties participating in the settlement conference shall waive their right to object to the participation of the agency representative in the final administrative decision.