



Arizona Department of Education

The Audit Unit
1535 W. Jefferson St., Bin 19
Phoenix, Arizona 85007
602-364-2097

Average Daily Membership Audit Report Omega Charter Schools d.b.a. Omega Academy, Inc. Fiscal Years 2005, 2006, and 2007

Report Number 09-05

April 24, 2009

**CONTACTING THE
AUDIT UNIT**

Arthur E. Heikkila, Chief Auditor

Phone: (602) 364-2097

Email: Art.Heikkila@azed.gov

Fax: (602) 542-4056

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

**OBTAINING
ADDITIONAL COPIES**

To obtain additional copies of this report, please submit a formal request to the address below:

Arizona Department of Education—The Audit Unit
Attn: Joy Moore
1535 W. Jefferson Street, Bin 19
Phoenix, AZ 85007-3209



ARIZONA DEPARTMENT OF EDUCATION
The Audit Unit
1535 W Jefferson St, Bin 19 • Phoenix, AZ 85007
Phone (602) 364-2097 Fax (602) 542-4056

April 24, 2009

Dr. Patricia Bassett
Omega Schools d.b.a. Omega Academy, Inc.
17505 N. 79th Ave., Suite 112
Glendale, AZ 85308

Dear Dr. Bassett:

The Arizona Department of Education Audit Unit has conducted an audit of the Omega Charter Schools, d.b.a. Omega Academy, Inc's Average Daily Membership for Fiscal Years 2005, 2006, and 2007. The purpose of the audit was to address whether the School properly reported student attendance, offered students sufficient statutorily-mandated instructional hours, and to determine if it received the correct amount of State Aid.

The audit found that the school under-reported absences at its two high schools for FY2005, FY2006, and FY2007.

We appreciate the excellent cooperation and assistance provided by the Superintendent and staff during the course of the audit. My staff and I will be pleased to discuss or clarify items in the report.

The audit becomes final 30 days after issuance, unless the District files an appeal. Appendix A in the report provides rules governing the appeals process.

Sincerely,

Arthur E. Heikkila
Chief Auditor

TABLE OF CONTENTS

	<u>Page</u>
Introduction and Background	1
Scope and Methodology	3
Finding 1: The School Under-Reported Absences and Was Overpaid State Aid for FY2005, FY2006, and FY2007	5
Recommendations.....	6
ADM Funding Adjustments	7
Appendix A	a-i

Tables

Table 1: Omega Charter Schools d.b.a. Omega Academy, Inc. Students, Staffing, Revenues and Expenditures FY2005, FY2006, and FY2007 (Unaudited).....	2
Table 2: Omega Charter Schools d.b.a. Omega Academy, Inc. Students in Sample, Per School, Per Year FY2005, FY2006, and FY2007	3
Table 3: Omega Charter Schools d.b.a. Omega Academy, Inc. Reported, Audited, and Under-Reported Student Absences for the Sampled Students FY2005, FY2006, and FY2007	5

TABLE OF CONTENTS (CONCL'D)

	<u>Page</u>
Tables (concl'd)	
Table 4: Omega Charter Schools d.b.a. Omega Academy, Inc. Adjusted ADM Calculation FY2005, FY2006, and FY2007	6
Table 5: Omega Charter Schools d.b.a. Omega Academy, Inc. Reported, Audited, and Overstated Adjusted ADM and State Aid Adjustments FY2005, FY2006, and FY2007	6
Table 6: Omega Charter Schools d.b.a. Omega Academy, Inc. ADM Overstatements and State Aid Overpaid for Under-Reported Student Absences FY2005, FY2006, and FY2007	7

INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) has conducted an Average Daily Membership (ADM) audit of Omega Charter Schools, d.b.a Omega Academy Inc.(the School), pursuant to the provisions of A.R.S. §§15-183(E)(6) and 15-901(A)(2). This audit focused on whether the School accurately reported attendance data to ADE for FY2005, FY2006, and FY2007.

Average Daily Membership (ADM) audits help ensure the appropriate distribution of nearly \$5 billion in State Aid provided annually to school districts and charter schools in Arizona. Schools receive State Aid based on several factors related to student attendance.¹ To receive funding, schools report attendance data to ADE. ADE then processes that data, determines payment amounts according to the relevant statutory funding formula(s), and distributes payments to schools 10 times each year.

Audit and appeal processes—The ADM audit process determines whether payments were correct or if an adjustment is needed, and provides for an appeal process if the school disagrees with the audit finding(s). ADM audits compare the school’s reported information to the original records kept at the school. If the audit finds that the school’s reported information does not match the original documentation, the audit will identify and report the funding adjustment needed to the school’s State Aid. These funding adjustments can be positive or negative, depending upon the audit finding(s).

After the audit is published, statutes provide schools that disagree with the audit findings the opportunity to file a formal appeal within 30 days after the report was issued. The school and ADE may reach agreement in an informal settlement conference. If not, the appeal will be adjudicated by the Office of Administrative Hearings. If it has been determined that a school received excess State Aid, statutes allow schools to have their future funding adjusted over a 12-month period to compensate for the overpayment. In case of hardship, schools may request that the Superintendent of Public Instruction allow the adjustment to occur over a 24-month period.

School financial and other information—The School has two locations in the Phoenix area and includes six schools that offer education ranging from kindergarten to the 12th grade.² In FY2007, the School had 575 students enrolled at its schools. Table 1 (see page 2) presents the School’s student, staffing, and financial information for FY2005, FY2006, and FY2007.

¹ Charter schools are funded based on “student count”, which is defined in A.R.S. §15-185(B)(2) as Average Daily Membership for the current fiscal year. ADM is determined based on student enrollment and other attendance factors. Schools are required every 20 days to submit daily attendance information to ADE for each student enrolled. Attendance information is used by ADE to calculate ADM.

² Until FY2005, the School had seven locations.

Table 1
Omega Charter Schools d.b.a Omega Academy, Inc.
Students, Staffing, Revenues and Expenditures
FY2005, FY2006, and FY2007
(Unaudited)

	FY2005	FY2006	FY2007
Students Enrolled	656	579	575
Total Staff	n/a ¹	26	28
Revenue			
Local	\$ 449,513	\$ 359,621	\$ 190,502
State	3,270,441	3,286,659	3,452,609
Federal	521,499	864,583	767,277
Total Revenues	\$4,241,453	\$4,510,863	\$4,410,388
Total Expenditures	\$4,061,363	\$4,404,970	\$4,632,677

¹ The School was unable to provide a staff count for FY2005.

Source: "Annual Report of the Arizona Superintendent of Public Instruction," for FY2005, FY2006, and FY2007.

SCOPE AND METHODOLOGY

The audit reviewed whether the School received the correct amount of State Aid based on the student data it reported to ADE for FY2005, FY2006, and FY2007.

To determine whether the School received the correct amount of State Aid based on its reported student attendance, auditors reviewed the accuracy of the data that comprises the School's Average Daily Membership (ADM) and then calculated the School's ADM. Auditors selected a sample of 705 students from FY2005, FY2006, and FY2007. For this sample, auditors compared the number of reported student membership days (days students were enrolled at the School) from the School's student records to records from ADE's Student Attendance Information System (SAIS), to determine if any discrepancies existed. Additionally, auditors compared ADE's attendance reports to the School's records for FY2005, FY2006 and FY2007 to determine if the School correctly reported student absent days.

To determine whether the School provided a sufficient number of instructional hours to its students, auditors reviewed the School's bell schedules and calendars for FY2005, FY2006, and FY2007. The bell schedules included class times for regular and early release days and specified any non-instruction time for students, such as lunch time. Auditors then compared each of the School's number of instruction days and hours to the statutory requirements and determined that the School was providing the statutorily-mandated number of instructional hours and days.

Auditors also reviewed the School's absence data to determine if the School was reporting it correctly to ADE. As shown by Table 2, auditors reviewed about 40 students from each of the seven school sites for each fiscal year audited. Because the School exceeded the State's absence threshold for all three fiscal years audited, auditors followed the statutorily-prescribed procedure to determine the "Adjusted ADM."³ Finally, auditors determined the amount of the School's funding adjustment by comparing the School's reported adjusted ADM and audited adjusted ADM.

Table 2

**Omega Charter Schools d.b.a. Omega Academy, Inc.
Students in Sample, Per School, Per Year
FY2005, FY2006, and FY2007**

Schools	FY2005	FY2006	FY2007
Omega Academy—Grades K-4	40	40	39
Stellar Prep—Grades K-4	39	37	37
C. Doby—Grades 5-8	40	40	37
S. Sturgeon—Grades 5-8	40	40	36
La Puerta—Grades 9-12	40	40	36
Oasis—Grades 9-12	40	38	38
Omega University High—Grades 9-12	8	0	0
Total sampled	247	235	223
Total enrolled	656	579	575
Total percentage sampled	37.65	40.59	38.78

Source: Auditor analysis of ADE attendance reports and student records from the School for FY2005, FY2006, and FY2007.

³ A.R.S. §§15-902(A) and 15-902(B) requires that if a school has excessive absences (over 8.5 percent for a high school and over 6.0 percent for an elementary or middle school), its "Adjusted ADM" is determined by using its ADA multiplied by 1.085 if it is a high school or 1.060 if it is an elementary or middle school.

The Audit Unit expresses its appreciation to the administration and staff of the School for their cooperation and assistance during this audit.

FINDING 1: THE SCHOOL UNDER-REPORTED ABSENCES AND WAS OVERPAID STATE AID FOR FY2005, FY2006, AND FY2007

The School under-reported absences at its two high schools for FY2005, FY2006, and FY2007, and as a result, received an overpayment of State Aid that ADE needs to recover. Because the School's absence rate exceeded the statutory threshold, auditors adjusted the School's ADM to account for the excessive absences. This adjustment determined that the School received an overpayment of State Aid totaling \$43,108.58. In the future, the School should ensure that it properly records and reports student absences.

Two of the Omega schools under-reported student absences to ADE. As shown by Table 3, auditors found that the School under-reported its student absences by a total of 654.50 for FY2005, FY2006, and FY2007. All of the under-reported absences occurred at the La Puerta and Oasis high schools. Both schools need to review their attendance and absence reporting systems at those schools to ensure that data is being gathered and reported properly.

Since the schools under-reported their student absences, their ADM was overstated and Omega received an overpayment of State Aid for all three fiscal years audited. Because the absence rate exceeded the statutory threshold of six percent, auditors adjusted the School's ADM to account for the excessive absences. As shown by Table 4 (see page 6), to adjust the School's ADM, auditors calculated the School's Average Daily Attendance (ADA) and multiplied it by the statutorily-prescribed weight of 1.06 to determine its adjusted ADM.⁴

Table 3

**Omega Charter Schools d.b.a Omega Academy, Inc.
Reported, Audited, and Under-Reported
Student Absences for the Sampled Students
FY2005, FY2006 and FY2007**

Fiscal Year	Reported	Audited	Under-reported
2005	5,083.50	5,290.25	206.75
2006	5,003.25	5,176.50	173.25
2007	<u>3,498.75</u>	<u>3,773.25</u>	<u>274.50</u>
Total	<u>13,585.50</u>	<u>14,240.00</u>	<u>654.50</u>

Source: Auditor analysis of ADE attendance reports and the School's student records for FY2005, FY2006, and FY2007.

⁴ According to A.R.S. §15-902(A), a district's or charter holder's reported ADM will be adjusted by ADE if its absences are excessive. For a district or charter holder offering instruction for grades kindergarten through 12 where the ADM exceeds the ADA by more than 6 percent through the first 100 days in session of the current school year, the student count is determined by multiplying the ADA by 1.06 percent.

Table 4

**Omega Schools d.b.a. Omega Academy, Inc.
Adjusted ADM Calculation
FY2005, FY2006, and FY2007**

Fiscal Year	Audited ADA	Statutory Weight	Audited Adjusted ADM
2005	525.29	1.06	556.81
2006	474.61	1.06	503.09
2007	457.31	1.06	484.75

Source: Auditor analysis of attendance reports and student records for FY2005, FY2006, and FY2007.

After making these adjustments, auditors determined that the School's adjusted ADM was overstated by a total of 7.06 for all three fiscal years audited. Specifically, as shown by Table 5, the School's adjusted ADM was overstated by 2.02 for FY2005, 1.83 for FY2006, and 3.21 for FY2007. As a result, the School was overpaid \$43,108.58 in State Aid that ADE needs to recover from the School.

Table 5

**Omega Charter Schools d.b.a. Omega Academy, Inc.
Reported, Audited, and Overstated Adjusted ADM and
State Aid Adjustments
FY2005, FY2006 and FY2007**

Fiscal Year	Reported Adjusted ADM	Audited Adjusted ADM	Overstated Adjusted ADM	Overpaid State Aid
2005	558.83	556.81	2.02	\$12,093.72
2006	504.92	503.09	1.83	\$10,912.21
2007	487.96	484.75	3.21	\$20,102.65
Total	1,551.71	1,544.65	7.06	\$43,108.58

Source: Auditor analysis of ADE attendance reports and student records from the School for FY2005, FY2006 and FY2007.

Recommendations:

1. ADE should recover \$43,108.58 in State Aid that the School should not have received for FY2005, FY2006 and FY2007.
2. The School should review the attendance and absence reporting system at its La Puerta and Oasis high schools to ensure that data is being gathered and reported properly.

ADM FUNDING ADJUSTMENTS

This audit identified an overall funding adjustment of \$43,108.58 that ADE will need to recover from the School. Statutes allow repayment in 12 months or 24 months for hardship situations with the approval of the State Superintendent of Public Instruction.

Statutes and rules also 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 6 lists the overstated ADM and associated State Aid adjustments for the School for FY2005, FY2006, and FY2007.

Table 6

**Omega Charter Schools d.b.a. Omega Academy, Inc.
ADM Overstatements and State Aid Overpaid for
Under-Reported Student Absences
FY2005, FY2006, and FY2007**

Fiscal Year	Under-Reported Student Absences	
	ADM	Amount
2005	2.02	\$12,093.72
2006	1.83	\$10,912.21
2007	3.21	\$20,102.65
Total	7.06	\$43,108.58

Source: Auditor analysis of SAIS and School student and financial data for FY2005, FY2006, and FY2007.

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.