Arizona Department of Education

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Average Daily Membership Audit Report
PAS Charter, Inc. d.b.a. Intelli-School, Inc.
Fiscal Year 2009

Report Number—10-4

October 8, 2010

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October 8, 2010

Ms. Patty Shaw, President
PAS Charter, Inc. d.b.a. Intelli-School, Inc.
1107 E. Bell Rd., Ste. 109-A
Phoenix, AZ 85022

Dear Ms. Shaw:

The Arizona Department of Education Audit Unit has conducted an audit of the PAS Charter, Inc. d.b.a. Intelli-School, Inc.'s Average Daily Membership for Fiscal Year 2009. The purpose of the audit was to determine whether the School complied with statutory attendance requirements and to determine if it received the correct amount of Basic State Aid.

The audit found that the School inappropriately allowed students to make up their absences, accrue instructional hours to cover future absences, and receive instructional time for working at off-site jobs. As a result of these practices, the School substantially under-reported its absences and was overpaid about $127,000 in Basic State Aid.

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

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

Sincerely,

Arthur E. Heikkila
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of the PAS Charter, Inc. d.b.a. Intelli-School, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) §§ 15-239, 15-901 (A) (2) and 15-915. The audit focused on whether the School accurately reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2009.

Average Daily Membership audit conducted—ADM audits help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. Schools receive Basic State Aid based on several factors related to student attendance. To receive funding, schools report enrollment and attendance data to ADE. ADE then processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to school districts and charter schools up to twelve times each year.

Audit and appeal processes—The ADM audit process determines whether payments were correct or if an adjustment is needed pursuant to A.R.S. § 15-915, and provides for an appeal process if the school disagrees with the audit findings. 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 Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings.

The audit is an appealable action. A.R.S. § 41-1092.03 provides schools that disagree with the audit findings the opportunity to file a formal appeal within thirty (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 ADE has determined that a school received excess Basic State Aid, A.R.S. § 15-915 directs that corrections to schools' funding be made in the current budget year. In case of hardship, schools may request that the Superintendent of Public Instruction allow a correction to be made partly in the current budget year and partly in the following budget year.

School financial and other information—The School is located in Phoenix and consists of one high school that offers computer-based education to students enrolled in grades nine through twelve. The School is overseen by a site administrator. For FY2009, the School reported a fall enrollment of 189 students and employed seven full time equivalent (FTE) teachers. Table 1 (see page 2) provides the School's student, staffing, revenue and expenditure information for FY2007 through FY2009.

Table 1

PAS Charter, Inc. d.b.a. Intelli-School, Inc.
Students, Teacher FTE, Revenues and Expenditures
FY2007, FY2008 and FY2009
(Unaudited)

	FY2007	FY2008	FY2009
Number of Students	**183**	**185**	**189**
Teacher FTE	10	5	7
Revenue			
Local	$31,787	$13,958	$14,392
State	1,309,567	1,275,044	1,269,988
Federal	18,061	98,645	74,788
Total Revenues	**$1,359,415**	**$1,387,647**	**$1,359,168**
Total Expenditures	**$1,526,202**	**$1,303,826**	**$1,444,995**

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2007, FY2008 and FY2009.

SCOPE AND METHODOLOGY

The audit focused on whether the School accurately reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid in accordance with statutes for FY2009.

To determine whether the School received the correct amount of Basic State Aid based on its reported student attendance, auditors used a variety of methods. To gain an understanding of how the School recorded student attendance and how it reported this information to ADE, auditors interviewed School personnel and reviewed School records, statutes and polices. Auditors also reviewed the School's original attendance records and compared them to the attendance data submitted to ADE.

Additionally, auditors reviewed the School's absence data to determine if the School was reporting its absences correctly to ADE. Because auditors determined that the School had exceeded the State's statutory absence threshold of 8.5 percent for FY2009, they were required to adjust the School's ADM to account for the excessive absences. Specifically, auditors multiplied the School's reported attendance by a statutorily-prescribed weight to arrive at the "Adjusted ADM". After performing these calculations, auditors determined the amount of the School's funding adjustment by comparing the School's reported ADM and its audited adjusted ADM.

The Audit Unit expresses its appreciation to PAS Charter, Inc. d.b.a. Intelli-School, Inc.'s administrators and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: THE SCHOOL UNDER-REPORTED STUDENT ABSENCES RESULTING IN AN OVERPAYMENT OF $127,000

The Audit found that the School significantly under-reported its student absences and as a result, was overpaid almost $127,000 in Basic State Aid for FY2009. The School improperly allowed students to make up their absences and bank time to cover for future absences, both of which are not allowed by State statute. Additionally, the School improperly allowed students to participate in a work study program that gave them instructional time for working at an off-site job. As a result of these inappropriate practices, the School substantially under-reported its absences to ADE and was overpaid $126,951.90 in Basic State Aid. Pursuant to A.R.S. § 15-915, ADE is required to recoup these funds from the School.

The School Failed to Comply with Statutory Attendance Reporting Requirements

The School did not adhere to statutory attendance requirements. First, the School improperly allowed students to make up both their excused as well as unexcused absences. In addition, the School allowed students to bank hours to use in the future to compensate for excused and unexcused absences. Further, the School facilitated a program where students could work at jobs away from the School, which was used to substitute for instructional time and reduce their absences. Since the audit, the School has discontinued allowing students to either make up or bank hours but still allows students to receive instructional credit for working.

School should not have allowed students to make up absences—The School improperly allowed students to make up their absences so that they did not miss instructional time. According to the School's site administrator, students who arrived to school late or were absent for a day were allowed to make up their missing hours by attending additional time at a later date. For example, if a student was absent on Monday, they could attend twice as long on Tuesday to make up the instructional hours that were missed the day before. According to the site administrator, students were allowed to make up their absences within 20 days.

Although the School allowed students to make up their absences within each 20 day register period, statute does not allow this practice. According to A.R.S. § 15-901 (A) (6) (d), "...the attendance of a pupil shall not be counted as a full day unless the pupil is actually and physically in attendance and enrolled in and carrying four subjects, each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty hours a year, or the equivalent..." As a result, students who are not actually and physically in attendance at school should have been recorded as absent and should not have been allowed to make up their time at a later date.

School improperly encouraged students to bank hours—In addition to allowing students to make up their absences, the School also encouraged students to earn or bank instructional hours to compensate for future absences. According to the School's procedures, this banked time was referred to as Additional Instructional Time (AIT) and was intended to allow students to create and maintain a supply of instructional hours to cover their absences up to 20 days in the future. For example, if a student was going to miss school for a vacation or a doctor's appointment, the School allowed them to stay for an extra session of time to cover the future day they plan to miss.

Although the School allowed students to bank attendance hours up to 20 days in the future, statute does not allow this practice. According to A.R.S. § 15-901 (A) (6) (d), "...the attendance of a pupil shall not be counted as a full day unless the pupil is actually and physically in attendance and enrolled in and carrying four subjects, each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty hours a year, or the equivalent..." As a result, students who are not actually and physically in attendance at school must be recorded as absent. Statute does not provide for students to accrue instructional time for ADM purposes outside of the scheduled instructional time.

School improperly allowed work study to count as instructional time—In addition to allowing students to make up absences and bank hours, the School inappropriately allowed students to receive instructional time for working at jobs away from the School. The School had a program called work study where students would work at any sort of an off-site job and then receive instructional credit. For this program, 100 of a student's working hours translated into 16 instructional hours. Additionally, the School allowed students' work time to count as instructional time to substitute for an absence.

However, unless a school is operating a specific career and technical education (CTE) program, students' time spent in work programs should not be allowed to count as attendance hours for funding purposes. Statute includes an exception for students in career and technical educational programs that have been approved by ADE.[1] Since the School did not have an approved CTE program at the time of the audit, it was not allowed to use these hours for attendance. Similar to not allowing students to make up absences, statute requires students to be actually and physically attending school in order to be considered as attending school.[2] As a result of not having an approved CTE work program, students who attend the School and work at a job off-site can neither be counted towards School attendance nor should they have their work hours count as instructional time.

School has since corrected most of these problems—Since the School's internal auditors brought these issues to the School's attention, the School has ceased two of these three practices. First, according to School officials, the School no longer allows students to bank attendance hours. Additionally, the School applied to and received approval from the Arizona State Board for Charter Schools for FY2010 to operate an alternative calendar. This will allow students to bank hours within the same week and not

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1 A.R.S. §15-802 (D) (5) presents exceptions to the requirement that all students have to attend school and receive instruction. One of the exceptions is if the child is enrolled in a work training, career education, career and technical education, vocational education or manual training program which meets the educational standards established and approved by the Department of Education.

2 According to A.R.S. §15-901(A) (6) (d), "for high schools or ungraded schools in which the pupil is at least fourteen years of age by September 1, the attendance of a pupil shall not be counted as a full day unless the pupil is actually and physically in attendance and enrolled in and carrying four subjects, each of which, if taught each school day for the minimum number of days required in a school year, would meet a minimum of one hundred twenty hours a year, or the equivalent..."

accrue absences if at least 20 hours of instructional time are met. However, School officials disagreed with ADE auditors' disallowance of the work study time counting for instructional time, and felt that this was a common practice that was acceptable. At the time the audit was completed, the School still continued this practice.

Non-compliance Resulted in Incorrect Number of Absences Reported to ADE

As a result of improperly allowing students to make up absences, bank instructional time and count working time as instructional time, the School significantly under-reported the number of its student absences to ADE for FY2009. It is important that schools accurately report their student absences to ADE because absence reporting can impact the amount of Basic State Aid a school receives if its absence rate exceeds a certain statutory threshold.

Improper attendance practices led to significant absence under-reporting—Due to its improper attendance practices already noted, the School did not report its absences correctly to ADE. Auditors reviewed all of the School's student attendance for FY2009. While performing this review, auditors identified many absences that the School failed to report to ADE. Specifically, auditors reviewed the School's sign in sheets to determine if each student was actually in attendance each school day. For days where the sign in sheet did not include a particular student's information, auditors recorded this student as being absent rather than in attendance.

After auditors reviewed the School's attendance information and identified absences that the School failed to record, auditors compared this information to the data found in ADE's Student Accountability Information System (SAIS). This review found that the School significantly under-reported its student absences to ADE for FY2009. As shown by Table 2, the School reported 1,445 absences for FY2009. However, auditors found that the School's actual absences were 3,063 and were under-reported by 1,619.

Table 2

PAS Charter, Inc. d.b.a. Intelli-School, Inc.
Reported and Audited Absences
FY2009

Reported Absences	1,445
Audited Absences	3,063
Under-reported Absences	1,619

Source: Auditor analysis of SAIS reports and School attendance records for FY2009.

Correct absence information critical to ensuring correct payment—It is important that school districts and charter schools report their student attendance and absences accurately to ADE because their overall absence rate may affect the amount of Basic State Aid they receive. Specifically, if a school district or

charter school's absences are excessive and exceed a statutory threshold, their ADM and funding will be calculated using adjusted ADM.[3]

Since auditors determined that the School's absence rate for FY2009 exceeded the statutory threshold of 8.5 percent, auditors were required to adjust the School's ADM to be based on Average Daily Attendance (ADA) to account for the excessive absences. After making these adjustments, auditors determined that the School's audited adjusted ADM was overstated, which led to an overpayment of Basic State Aid for FY2009.

The School Was Overpaid $126,951.90 In Basic State Aid Funding

Since the School significantly under-reported its absences to ADE for FY2009, it received an overpayment of Basic State Aid. As shown by Table 3, the School's ADM was overstated by 19.440, which resulted in it receiving an overpayment of $126,951.90, which ADE must recoup.

Table 3

PAS Charter, Inc. d.b.a. Intelli School, Inc.
Reported and Audited ADM, ADA, Funding and Adjustments
FY2009

	ADM	ADA	Funding
Reported	177.118	161.512	$1,214,988.29
Audited	157.678	145.326	$1,088,036.39
Adjustment	19.440	16.186	$ 126,951.90

Source: Auditor analysis of School records and SAIS data for FY2009.

Recommendations:

1. ADE is required to recoup $126,951.90 in overpaid Basic State Aid from the School for incorrectly reported attendance in FY2009.

2. In the future, the School should ensure that it does not use make-up time or bank time to calculate student absences reported to ADE.

3. The School should cease the practice of substituting students' work time for instructional hours.

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3 According to A.R.S. §15-902 (A) and (B), if a school district's or charter school's Average Daily Attendance (ADA) exceeds the ADM by a specific percentage (8.5 percent for a high school district or charter school, or 6.0 percent for an elementary or unified district or charter school), its ADM must be adjusted. To adjust a school district's or charter school's ADM for excessive student absences, multiply the ADA by 1.085 or 1.060 to determine the adjusted ADM that will be funded.

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.