



REPORT OF
THE
STATE AUDITOR

Online Education
Department of Education

PERFORMANCE AUDIT
November 2006

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This report contains the results of a performance audit of K-12 online education in Colorado. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Education.

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State Auditor

**Online Education
Performance Audit
November 2006**

Authority, Purpose, and Scope

This performance audit of K-12 Online Education was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was performed in response to a legislative request. We conducted the audit work from January through November 2006 in accordance with generally accepted government auditing standards. As part of our audit, we reviewed documentation and interviewed personnel in the Department of Education; visited a sample of online schools; analyzed academic performance and funding data for Fiscal Years 2003 through 2006; and surveyed parents and students. Our audit included a sample of 12 online schools with over 6,100 enrolled students and \$32.5 million in funding in Fiscal Year 2006. The schools we reviewed represented 99 percent of all students enrolled in online schools and 99 percent of the associated funding for the year. Our audit addressed programmatic and policy issues related to online schools but did not include in-depth financial review or testing of individual financial transactions of the online schools or school districts.

Overview

K-12 public education represents the single largest expenditure of state general fund monies in Colorado. In Fiscal Year 2006 just over 43 percent of all general fund monies appropriated went to support K-12 public education. The majority of public education funds are provided through the Public School Finance Act (PSFA). In Fiscal Year 2006 the PSFA provided a total of about \$4.57 billion in funding to Colorado school districts, consisting of about \$2.87 billion in state general fund monies and about \$1.70 billion from local sources. In Fiscal Year 2006 there were 178 school districts, over 1,700 public schools, and about 761,000 public school students in Colorado. A total of 18 online schools serving nearly 6,200 students were operated by 14 of Colorado's school districts.

The State Board of Education (State Board), consisting of one member elected from each of Colorado's seven congressional districts, is charged by statute and the Colorado Constitution with duties that include providing general supervision of the State's public schools; appointing a commissioner of education; and making recommendations to the Governor and General Assembly to improve education. The statutes also authorize the State Board to promulgate policies, rules, and regulations. The Department of Education's (Department's) duties include reviewing local school districts for accreditation, administering statewide student assessments, and distributing education funding. Colorado is a local control state. Local school boards and districts oversee many aspects of public education, including personnel, calendars and schedules, and educational programs.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Statute [Section 22-33-104.6, C.R.S.] defines an online education program as one that “provides a sequential program of instruction for the education of a child who resides in Colorado through services accessible on the world wide web” The statute requires online schools to (1) have a site coordinator who regularly assesses students; (2) provide courses in reading, writing, mathematics, geography, history, civics, literature, science, and the U.S. Constitution; and (3) ensure online students participate in the Colorado Student Assessment Program (CSAP). Between Fiscal Years 2003 and 2006, the number of online schools increased from 12 to 18 (50 percent). Over the same time period, the number of online school students more than doubled, from about 1,900 to about 6,200, and annual online school funding almost quadrupled from about \$8.4 million to about \$32.8 million.

Key Findings

Oversight of Online Education Quality

In Fiscal Year 1997 the General Assembly established a school accountability program that requires students in grades 3 through 10 to be tested annually through the Colorado Student Assessment Program (CSAP). We analyzed aggregated CSAP results, attrition and dropout rates (the percentage of students who changed schools or dropped out of school), and repeater rates (the percentage of students who repeated a grade) for students in our sample of 12 online schools and found that online students tended to perform poorly compared to students in the State as a whole. To identify the causes of the performance problems, we reviewed the Department’s and State Board’s processes for overseeing school districts and found significant weaknesses. Our findings related to the quality of online education include the following:

- **In the aggregate, online students performed poorly on the CSAP exams and had high repeater, attrition, and drop out rates.** For example, in school years 2003-2004 through 2005-2006, between 23 and 35 percent of online students scored at or above grade level on the math CSAP exams compared with 43 to 53 percent of students in the State as a whole. Over the same period, between 55 and 64 percent of online students we analyzed scored at or above grade level on the reading CSAP exams compared with 68 percent of students statewide in all three years. In addition, we found that the online students in our sample were about four to six times more likely to repeat a grade than students statewide; the attrition rate for the students we analyzed was almost three to four times higher than the attrition rate for students statewide; and the aggregate dropout rate was between three and six times higher than the statewide rate.
- **The Department does not use the accreditation process effectively to improve the quality of education.** The Department accredits school districts to monitor education quality and student achievement at public schools, including online schools. We found that, despite ongoing problems in four of the seven school districts we reviewed, the Department did not place these four districts on accreditation probation, as required by State Board rules.

For example, none of the four districts had written procedures in place to accredit their schools (a requirement of the State Board). In addition, two districts had low CSAP performance and participation results and had failed to evaluate the literacy levels of their online students. Finally, one school district had problems specifically related to its online school but failed to submit an improvement plan to the Department as required by statute.

- **There is no standard definition of “at-risk student” for use in assessing academic performance.** The online schools we reviewed indicated that their students perform poorly on the CSAP exams because the majority of their students are at-risk. Some of these schools described their students as at-risk because their students had jobs, participated in music or rodeo programs, transferred from districts with poor CSAP performance, or had health problems. The statutes do not include these factors in any definition of “at-risk student.” Furthermore, we were unable to verify the at-risk status of 80 percent of the online students we reviewed on the basis of information maintained by the online schools or school districts.
- **Teaching and assessment roles are not clearly defined for online schools.** State statutes require all schools to employ licensed teachers. Federal rules require highly qualified teachers to instruct and assess students. We evaluated instructional practices at the 12 schools in our sample and identified 5 schools that did not appear to comply with these state and federal requirements. For example, in one online school, we found that parents provided the day-to-day lesson delivery under guidance from licensed teachers (an instructional model that is similar to a home-school), and in another school, there were only four licensed teachers to instruct about 1,500 students in all grades and subject areas. State statutes also require an in-person assessment of online students. We found that some schools in our sample considered informal meetings, such as school picnics, to meet this statutory requirement.

Oversight of Online Schools

Our audit identified significant problems with one online school—Hope Online Learning Academy Co-Op (Hope Academy). Hope Academy is headquartered in the Denver area and chartered by the Vilas RE-5 school district (Vilas), located in Baca County in southeastern Colorado. During its first school year of operation (2005-2006), Hope Academy enrolled about 1,500 students. Hope Academy contracts with private schools, churches, and other community organizations (collectively referred to as learning centers) to provide facilities where students can access the Hope Academy curriculum. The learning centers also employ mentors to monitor the students. The problems we identified with Hope Academy, described below, illustrate the risks of having insufficient standards for and oversight of online schools.

- **Public funding supporting private and religious education.** At two of the five learning centers we visited that were located in private religious schools, Hope Academy students generally spent at least half their day in private school classes. In total, Hope Academy paid

these two learning centers about \$327,000 in public funding during the 2005-2006 school year. One of these schools commingled its \$250,000 in public funding with its private-school tuition. The Colorado Constitution prohibits a school district from using public funds to support any school controlled by a church or sectarian denomination.

- **Lack of licensed and highly qualified teachers.** Hope Academy had between three and four licensed teachers overseeing 165 mentors and about 1,500 elementary and high school students at any one time in 2005-2006. Specifically, we found Hope Academy had no licensed or highly qualified teachers: (1) instructing secondary science or social studies throughout the entire 2005-2006 school year; (2) providing elementary instruction from August through November 2005; or (3) instructing secondary language arts from December 2005 through May 2006. We also found that teachers were overseeing students' work in subject areas in which they were not highly qualified.
- **Incomplete criminal history checks for learning center mentors.** Hope Academy did not verify that the learning center mentors, who have daily contact with students, underwent fingerprint-based criminal history checks prior to their hire. The Colorado Bureau of Investigation (CBI) had no record of fingerprint-based criminal history checks for 11 of the 41 mentors (27 percent) we reviewed. Of the 30 that did have criminal history checks, 7 were checked through CBI but not FBI records, even though the agreements between Hope Academy and the learning centers require mentors to undergo both state and federal checks. Further, 15 checks were initiated after the 2005-2006 school year had begun and mentors were already working with children.
- **Lack of oversight for student safety and security.** Hope Academy did not ensure that all learning centers had current and adequate fire inspections on record. First, Hope Academy did not have fire inspection reports for three of the seven learning centers in our sample at the time of our request in August 2006. Hope Academy later provided reports for these learning centers, but one was not from the city fire department and another was more than a year old. According to the Denver Fire Department, buildings should be inspected annually by a city fire department. In addition, Hope Academy lacked sufficient controls over Internet access at one learning center, which could allow students to access inappropriate materials.
- **Lack of student documentation.** We reviewed a sample of 50 files for students who were enrolled in Hope Academy during the October 2005 pupil count period. Our review found that all 50 files were missing a variety of documentation, including student class schedules and school calendars, prior year report cards or assessment results (such as CSAP scores), immunization records, and documentation showing that students were in attendance during the pupil count period and had attended public schools the prior year. Hope Academy later provided additional documentation but ultimately none of the files contained all the required documents related to funding eligibility, attendance, immunizations, or student assessments. Because Hope Academy did not respond to our requests for student documentation until

November 2006, nine months after we requested the documentation in March 2006, we question the whether the information provided is reliable and whether any of the 50 students in our sample were eligible for state funding.

- **Lack of guidance for establishing learning centers outside the geographical boundaries of Vilas school district.** All of Hope Academy’s learning centers are located outside the boundaries of the Vilas school district, which may violate state statute [Section 22-32-109(2), C.R.S.] requiring “Any board [of education] conducting a complete educational program outside the territorial limits of the district . . . [to] obtain the written consent of the board of the school district in which said educational program is to be conducted. . . .” Neither Vilas nor Hope Academy sought consent from the districts in which the learning centers are located, claiming that the learning centers do not offer a complete educational program. Neither statute nor State Board rules define the term “complete educational program.” Although five school districts contacted the Department during the 2005-2006 school year with concerns about this issue, the Department has not taken any action to determine whether Hope is operating in a legal and appropriate manner.
- **Lack of complaint process.** The Department reports it received an unusually high number of complaints about Hope Academy during the 2005-2006 school year, averaging about five per month, citing concerns such as delays in getting computers for students, lack of proper student supervision, poor education quality, and truancy. The Department did not log the complaints, take action regarding any of the complaints, or otherwise ensure they were resolved.

Oversight of Online Education Funding

We identified concerns with the effect of online school funding on the State’s costs for K-12 education. Currently online schools often receive a higher state share of public funds than their brick-and-mortar counterparts. This is because many of the larger online schools are currently based in rural districts that generate low local tax revenues and therefore receive a larger state share of education funding. At the same time, many of the students who attend online schools are from urban districts that require a smaller state share of public education funding. In school year 2005-2006, online schools established by rural school districts enrolled a total of about 3,300 students. About 2,100 of these students (64 percent) resided in urban areas. For Fiscal Year 2006 the Department estimated that the State would have saved at least \$6.7 million if all online students had enrolled in schools in their district of residence instead of in the online schools they actually attended.

Alternative Models of Online Education

Many of the issues we identified during the audit are unique to online schools and are attributable, at least in part, to insufficient oversight and involvement of the Department in online schools. The concerns we identified indicate a need for the Department to reassess its oversight role with respect

SUMMARY

to online education, particularly in terms of online schools that enroll students from around the State. At a minimum, the Department needs to dedicate resources and expertise toward overseeing online education. Additionally, the Department should work with the General Assembly to evaluate other models for delivering online education including providing the Department more direct authority over online schools. Finally, it may be prudent to enact a moratorium on establishing new public online schools until the Department implements the recommendations in this report and the General Assembly has had an opportunity to consider other improvements to online education.

Our recommendations and the Department's responses can be found in the Recommendation Locator and in the body of this report.

RECOMMENDATION LOCATOR
Agency Addressed: Department of Education

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	32	Strengthen oversight and awareness of online school performance by analyzing performance data for online students and developing policies and guidelines to improve performance.	Partially Agree	May 2007
2	36	Improve the performance of online schools by following State Board accreditation rules and working with the General Assembly to seek authority for intermediate penalties, such as fines.	Partially Agree	June 2007
3	39	Review the statutory definitions of at-risk and high-risk students and work with the State Board and General Assembly as needed to determine a definition of at-risk students for use in evaluating academic performance. Require school districts to establish goals and processes to improve performance and report on the progress of at-risk students.	Partially Agree	June 2007
4	43	Work with the General Assembly to define the role of online teachers and develop rules for the in-person evaluation of online students. Ensure school districts employ licensed educators in all subject areas and grade levels.	Partially Agree	July 2007
5	46	Verify human resources data reported by school districts and identify districts that report data incorrectly. Conduct outreach to those districts and use the statutory penalties to address noncompliance with data reporting requirements.	Agree	December 2007

RECOMMENDATION LOCATOR
Agency Addressed: Department of Education

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
6	51	Improve oversight and management of the alternative education campus (AEC) designation process by implementing written policies and procedures that fully address requirements for AEC designation. Correct State Board rules that conflict with statute relating to AEC criteria.	Agree	June 2007
7	53	Work with the State Board to develop a formal code of conduct that addresses real and potential conflicts of interest. Periodically orient Board members on the code of conduct.	Disagree	--
8	67	Enhance the accreditation process to ensure that school districts: (1) do not use public education monies to fund private or religious education; (2) comply with statutory and regularity requirements regarding safety standards, course requirements, and student documentation; (3) follow standards for online teachers; and (4) have adequate procedures to monitor their schools.	Partially Agree	Unknown pending direction and resources from General Assembly
9	68	Place Vilas school district on accreditation probation. If Vilas does not correct all accreditation problems, revoke its accreditation in one year as permitted by State Board rules.	Agree	December 2006

RECOMMENDATION LOCATOR
Agency Addressed: Department of Education

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
10	70	Define the term “complete educational program” in State Board rules or work with the General Assembly to develop a statutory definition. Promulgate rules regarding a school district establishing learning facilities within the boundaries of another district. Work with the General Assembly to determine the safety requirements for learning facilities that do not meet the definition of a school or child care facility.	Agree	2007 Legislative Session
11	71	Develop a system to log, route, monitor, and resolve complaints and use complaint data in the accreditation process.	Disagree	--
12	76	Evaluate the current methodology for funding online education and explore options to minimize the effect of online schools on state and local funding. Work with the General Assembly to propose statutory changes if needed.	Agree	June 2007
13	80	Ensure that public K-12 education funds are accurately disbursed by working with the General Assembly to define an online program for funding purposes. Define the term “substantially completed,” develop clear criteria for documenting student attendance in an online school, and establish a more comprehensive risk-based approach for pupil count audits.	Partially Agree	June 2007

RECOMMENDATION LOCATOR
Agency Addressed: Department of Education

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
14	82	Determine how to comply with the statutory requirement to adjust funding for students who transfer from a brick-and-mortar to an online school during the year or consider seeking a statutory change to eliminate the requirement.	Agree	2007 Legislative Session
15	88	Increase oversight of online schools by assigning Department resources specifically to online education. Work with the General Assembly to evaluate options to increase accountability for online schools that serve students from multiple districts, such as authorizing the Department to: (1) directly accredit online schools, (2) approve the establishment of new online schools, and (3) approve and operate online schools.	Partially Agree	2007 Legislative Session
16	89	Consider seeking a statutory moratorium on the establishment of new public online schools until the recommendations from this report are implemented and any statutory changes in the Department's role are enacted.	Disagree	--

Overview of K-12 Online Education in Colorado

The Colorado Constitution [Article IX, Section 2] mandates the establishment and maintenance of a thorough and uniform system of free public schools throughout the State wherein all residents between the ages of 6 and 21 years may be educated free of charge. The Colorado Constitution also allows parents to send their child to any public or private school within the State or provide home-schooling. Public online education is one option that parents may choose when deciding how to educate their children. In Fiscal Year 2006 there were 178 school districts, over 1,700 public schools, and about 761,000 public school students in Colorado. Fourteen of the districts operated a total of 18 online schools serving nearly 6,200 students. K-12 public education represents the single largest expenditure of state general fund monies in Colorado. In Fiscal Year 2006 just over 43 percent of all general fund monies appropriated went to support K-12 public education.

Article IX, Section 1 of the Colorado Constitution states, “The general supervision of the public schools of the state shall be vested in a [State] Board of Education whose powers and duties shall be . . . prescribed by law.” According to statute [Section 22-2-105, C.R.S.], the State Board of Education “shall consist of one member elected from each congressional district in the state and, if the total number of congressional districts of the state is an even number, one member elected from the state at large.” Currently there are seven congressional districts in Colorado.

The State Board is charged by statute [Section 22-2-106, C.R.S.] with duties that include exercising general supervision over the public schools of the State; appointing a commissioner of education; appraising and accrediting the public schools and school districts in the State; submitting recommendations to the Governor and General Assembly for improvements in education; and ordering the distribution or apportionment of federal and state education funds. Further, Section 22-2-107, C.R.S., grants the State Board various powers including the authority to promulgate and adopt policies, rules, and regulations concerning general supervision of the public schools and the Department of Education.

The Department of Education (Department) was created in statute [Section 24-1-115, C.R.S.] and is defined in Section 22-2-103, C.R.S., as including the “State board of education; commissioner of education, assistant commissioners of education, and other officers and employees of the Department; and the state library.” The Department’s duties include:

- **Reviewing local school districts for accreditation.** The Department evaluates each school district annually on the district's compliance with accreditation indicators established by the State Board. Each local board of education executes an annual accreditation contract with the State Board. The contract defines the standards, goals, and requirements to be met by the school districts. Under the contracts, each school district is responsible for accrediting the schools within the district's boundaries, including online schools. Failure to comply with the accreditation contract may result in sanctions and corrective actions, including revocation of accreditation status and discontinuation of state funding.
- **Overseeing administration of statewide student assessments.** Under the Colorado Student Assessment Program (CSAP), exams are given to all Colorado public school students in grades 3 through 10 each year to measure their academic performance. Additionally, a college entrance exam is given to all 11th grade students. The Department oversees the administration of the exams and reports the results of the assessments in annual school report cards. The Department also uses CSAP results to assign ratings to each public school in the State and to assess whether school districts are meeting accreditation indicators.
- **Licensing teachers.** The Department licenses public school teachers in accordance with statute [Section 22-63-201, C.R.S.], which requires a Colorado license for employment as a teacher in any Colorado school district or public school except charter schools.
- **Distributing funding.** The Department distributes federal and state funding for K-12 education and conducts audits to verify the number of pupils reported by school districts each year.

Colorado is a local control state, meaning that many pre-kindergarten through 12th-grade public education decisions are made by the school districts and their local school boards. For example, statute [Section 22-32-109, C.R.S.] states that each local board shall be responsible for employing all personnel, setting the school calendar, determining the actual hours of teacher-pupil instruction, and choosing the educational programs and text books to be used by the schools.

Funding of Public K-12 Education

Colorado public schools receive funding from a variety of sources with the majority of funds being provided through the Public School Finance Act of 1994 (as amended). The Department follows a statutory formula to calculate the amount of Public School Finance Act funds each district is eligible to receive each year, known

as Total Program Funding. Total Program Funding for a school district is provided first by local property and vehicle registration taxes, known as the Local Share of funding. If the Local Share is insufficient to provide Total Program Funding to a school district, state monies fund the shortfall (State Share). State Share monies are primarily general funds from state income (personal and corporate), sales, and use taxes. In Fiscal Year 2006 the Public School Finance Act provided about \$4.57 billion in funding to Colorado school districts, consisting of about \$2.87 billion from the State Share and about \$1.70 billion from the Local Share. The following table shows Public School Finance Act funding and student enrollment for Fiscal Years 2003 through 2006.

Colorado Department of Education Public School Finance Act Funding (in Billions) and K-12 Student Enrollment For Fiscal Years 2003 Through 2006					
	Fiscal Year				% Change Fiscal Year 2003-2006
	2003	2004	2005	2006	
State Share	\$2.48	\$2.62	\$2.74	\$2.87	16%
Local Share	\$1.68	\$1.67	\$1.69	\$1.70	1%
Total Funding	\$4.16	\$4.29	\$4.43	\$4.57	10%
Number of Public School Students	736,000	742,000	749,000	761,000	3%
Source: Information provided by the Department of Education.					

Public School Finance Act funding for each school district is based on an annual October pupil count. Each school district counts pupils in attendance as of the school day nearest October 1 (the official count day). Districts are given an 11-day window in which to establish membership of students, thus providing an opportunity to include students who may be absent on the official count day. Pupils in grades 1 through 12 are counted either as full-time or part-time depending upon the number of scheduled hours of coursework.

As part of the funding calculation, the Department determines the per pupil revenue (PPR) each district should receive under the Public School Finance Act formula. As part of the budget process, the General Assembly establishes a base PPR each year. The amount of PPR is adjusted for each school district due to differences such as variations in personnel costs, school district size (in terms of number of students enrolled), cost of living, and the number of at-risk students. As an example of how these variations affect the PPR, Silverton school district, which is the fifth smallest district in the State, had the largest PPR at \$13,151 in Fiscal Year 2006. Silverton received such a large PPR primarily because it had only 75 pupils and about 50 percent of those students qualified for at-risk funding. In contrast, Jefferson County school district received a PPR of \$6,024 in Fiscal Year 2006, primarily because it is

the largest school district in the State and 19 percent of its student population qualified for at-risk funding.

School districts receive funding for their brick-and-mortar students at the district's regular PPR, as determined by the formula, but receive funding for most of their online students at a minimum PPR rate set by the General Assembly each year. Prior to Fiscal Year 2003, school districts were funded at their regular PPR for online students. Effective in Fiscal Year 2003, the General Assembly changed funding related to online students to the minimum PPR, but districts continue to be funded at their regular PPR for students who were enrolled in online schools prior to this change. For Fiscal Year 2006, districts received PPRs for all students ranging from the minimum of \$5,689 up to \$13,151, with a statewide average for all school districts of \$6,168.

In Fiscal Year 2006 the statewide average Local and State Shares of Total Program Funding were:

- **Average Local Share**—\$2,297 per pupil, or about 37 percent of Total Program Funding, ranging from \$113 per pupil to \$9,026 per pupil across districts.
- **Average State Share**—\$3,871 per pupil, or about 63 percent of Total Program Funding, ranging from \$537 per pupil to \$10,093 per pupil across districts.

In addition to the Total Program Funding, districts may receive other types of funding such as:

- **Override revenue**—generated by additional local mill levies approved by the district's voters. According to the Department, in Fiscal Year 2006 school districts generated a total of about \$471 million in override revenue.
- **Bonds**—districts may hold elections to authorize the issuance of bonds. According to the Department, in Fiscal Year 2005 school districts generated a total of about \$2 billion through the issuance of bonds. The Department did not have bond data for Fiscal Year 2006 at the time of the audit.
- **Categorical funding**—in six primary program areas: English language proficiency education, gifted and talented education, small attendance centers, transportation, vocational education, and special education. Some of these funds are distributed on a per pupil basis, while other funds are allocated on a grant basis. The Department was appropriated about \$170 million in categorical funding in Fiscal Year 2006.

- **Federal funding**—from various federal programs. Some federal funds are received by the Department and distributed to schools and districts, while others are provided directly to school districts by the federal government. The State and school districts expended about \$460 million in federal funding in Fiscal Year 2006.

Public Online Education

The first online public school began operating in 1995 as a pilot program. In 1998 the General Assembly enacted House Bill 98-1227 regarding the establishment of online programs to use “technological advances . . . to serve the diverse needs of today’s student population.” Statute [Section 22-33-104.6, C.R.S.] defines an online education program as a:

. . . program . . . that provides a sequential program of instruction for the education of a child who resides in Colorado through services accessible on the world wide web and monitored by a district coordinator. . . . An online program is not intended to be and does not qualify as a private or nonprofit school. . . . A school district, any group of two or more school districts, a charter school, a group of charter schools, or any board of cooperative services is authorized to create an online program.

The statute further describes online program criteria, including compulsory school attendance; regular assessment of students by a site coordinator; and the provision of courses in reading, writing, mathematics, geography, history, civics, literature, science, and the U.S. Constitution. In addition, statute mandates that students in an online program be evaluated, tested, and monitored at the same intervals as other students and participate in the CSAP.

By statute, school districts only receive funding for those online students who were enrolled in a public school the prior year or those who are entering the Colorado educational system for the first time. In other words, school districts may not receive online funding for students who were home-schooled or attended private schools the preceding year. However, the General Assembly also included an exemption process in the statute that allows the Department to waive these requirements on a case-by-case basis. According to statute, the intent of the exemptions was to “provide [online] funding for as many . . . children as possible to participate under the fiscal constraints that exist for the State.” School districts may receive funding for students who were home-schooled or attended private schools the preceding year if the students attend a brick-and-mortar public school.

Methods of Delivering Online Education

In general, there are three main methods for public school students to participate in online education courses in Colorado, as follows:

- **Online schools** are designed to provide all of an enrolled student's coursework online and may enroll students from anywhere in the State. School districts receive the minimum PPR for students enrolled in their online schools. In Fiscal Year 2006 there were 14 Colorado school districts operating 18 online schools, which enrolled nearly 6,200 students. These 14 school districts received about \$32.8 million in funding for their online students from state and local sources.
- **District programs** provide more than half, if not all, of a student's courses online and enroll only students who reside in the district. School districts receive the minimum PPR for students enrolled in district online programs. According to information from the Department, in Fiscal Year 2006 about 30 students were enrolled in district programs offered by 12 school districts. These school districts received about \$165,000 in online funding from state and local sources.
- **Supplemental programs** provide online courses that are in addition to the courses students take at their regular schools. These can include advanced or remedial courses that the district is unable to provide in a brick-and-mortar school due to limitations such as a lack of teachers qualified in a particular subject area. Schools receive the regular PPR for students enrolled in supplemental courses, since the students take less than half of their classes online. Information on the number and type of supplemental programs offered by school districts and the number of students enrolled is not available because districts are not required to report these data to the Department.

Our audit evaluated the first method of providing online education described above—online schools—which meets the statutory definition of an online program by providing a sequential program of instruction and meeting other requirements set forth in statute. The following table provides information on the number of online schools, students, and funding for the last four years.

Colorado Department of Education Trend Data for Colorado Online Schools Fiscal Years 2003 Through 2006					
	Fiscal Year				% Change Fiscal Year 2003-2006
	2003	2004	2005	2006	
No. of Districts With Online Schools	11	13	13	14	27%
Number of Online Schools*	12	14	14	18	50%
Number of Online Students	1,900	3,400	3,800	6,200	226%
Funding (in millions)					
State	\$6.7	\$14.1	\$16.2	\$28.1	319%
Local	<u>\$1.7</u>	<u>\$3.2</u>	<u>\$3.8</u>	<u>\$4.7</u>	176%
Total	<u>\$8.4</u>	<u>\$17.3</u>	<u>\$20.0</u>	<u>\$32.8</u>	290%
State Share Percentage	80%	82%	81%	86%	
Source: Office of the State Auditor analysis of information provided by the Department of Education.					
* Some school districts operate more than one online school.					

Colorado’s public online schools vary widely in the areas described below, making comparisons, analysis, and the development of standards more challenging:

- **Students Served:** Many online schools serve both primary and secondary students, but some provide only high school-level courses.
- **Student Location:** Most online schools serve students from around the State who access their online curriculum from computers in their homes. However, we found one school that has established physical locations outside the home where students complete their online work on a daily basis. At another school, students typically access their courses from home but are encouraged to meet with teachers face-to-face at the school’s headquarters for tutoring and advising on a regular basis.
- **Student-Teacher Interaction:** The student-teacher interaction requirements at the schools we reviewed ranged from daily contact between the student and teacher via email or phone, to weekly in-person student advisement classes at the school, to biweekly communication between the teacher and the student’s parent. Most online secondary students have a separate teacher for each class in which they are enrolled, but one school we reviewed has one teacher for all of the online high school courses.
- **Social Interaction Opportunities:** The online schools provide varying opportunities for socialization. One school offers outdoor activities, field trips, and workshops throughout the year; another does not organize any

school-sponsored events, but encourages its students to get involved in local organizations and groups.

- Curriculum: Some schools developed their own curricula, but most contract with private vendors to provide core or elective online courses.

Audit Scope and Methodology

This audit was conducted in response to a legislative request. Specifically, we were asked to review the quality, funding, and cost of online education in Colorado. We reviewed documentation and interviewed personnel in the Department of Education with respect to program policies and procedures for online education; visited nine online schools and school districts; performed detailed analyses of CSAP and funding data for Fiscal Years 2003 through 2006; surveyed parents and students; and collected information about online programs in eight other states: Florida, Idaho, Minnesota, Nevada, Ohio, Pennsylvania, Washington, and Wisconsin.

Our review included a sample of 12 online schools with over 6,100 enrolled students and \$32.5 million in funding in Fiscal Year 2006. The schools we reviewed represented 99 percent of all the students enrolled in online schools and 99 percent of the associated funding for the year. Our sample included students from 150 of Colorado's 178 school districts. Our audit addressed programmatic and policy issues related to online schools but did not include an in-depth financial review or testing of individual financial transactions of the online schools or school districts. The audit also did not include a review of district or supplemental online programs. The following table provides information on the sample of online schools we reviewed.

Colorado Department of Education Online Schools Reviewed in the Office of the State Auditor's Audit				
	School (School District)	Grade Levels Served	October 2005 Enrollment (Rounded)¹	Fiscal Year 2006 Public School Finance Act Funding²
1	Colorado Virtual Academy (Adams 12)	K-9	2,360	\$12,500,000
2	Hope Online Learning Academy Co-Op (Vilas RE-5)	K-12	1,520	\$7,740,000
3	Branson Online (Branson 82)	K-12	1,080	\$5,980,000
4	Vilas Online (Vilas RE-5)	K-12	370	\$2,040,000
5	Connections Academy (Denver Public Schools)	K-9	370	\$1,960,000
6	Karval Online (Karval RE-23)	K-12	150	\$840,000
7	Monte Vista Online Academy (Monte Vista C-8)	7-12	80	\$420,000
8	Colorado Online Learning Academy (Vilas RE-5)	9-12	60	\$320,000
9	Cotopaxi Home-School Partnership (Cotopaxi RE-3)	K-12	50	\$240,000
10	Denver Online (Denver Public Schools)	9-11	40	\$230,000
11	La Jara Second Chance School (North Conejos RE-1J)	K-12	30	\$180,000
12	Lester Arnold Online (Adams 14)	9-12	20	\$90,000
	Total		6,130	\$32,540,000
Source: Office of the State Auditor analysis of information from the Department of Education.				
Notes:				
¹ Enrollment figures show the number of students (not Full-Time Equivalents, or FTE) enrolled in each school in October 2005 including both full- and part-time students. School districts received \$5,689 for each full-time online student and \$2,845 for each part-time online student in Fiscal Year 2006.				
² Each school district determines the amount of Public School Finance Act funding to distribute to its schools. These amounts reflect the PSFA funds associated with each online school's October 2005 enrollment that were distributed to the districts.				

Oversight of Online Education Quality

Chapter 1

Online education represents a fundamental shift from the traditional methods of educating public students in terms of providing instruction and ensuring adequate oversight. The opportunities and risks presented by online education have been studied and reported by various organizations in recent years. For example:

- The Colorado Online Education Programs Study Committee, established by the General Assembly to study elementary and secondary online education programs in Colorado, noted in its 2003 report that, “online education . . . presents challenges to established educational norms, procedures, and measures.”
- The National Association of State Boards of Education noted, in a 2001 report on e-learning policy, that, “evidence to date convincingly demonstrates that, when used appropriately . . . e-learning can improve how [and] . . . what students learn, and can deliver high-quality learning opportunities. . . .”
- The Web-based Education Commission, established by Congress in 1999, reported in 2000 that, “the power of the Internet to transform the educational experience is awe-inspiring, but it is also fraught with risk. . . . Legislators and community leaders . . . have the responsibility to develop policies and make informed decisions to ensure that new technologies will enhance, and not frustrate, learning.”

Our audit focused on the Department of Education’s oversight of online schools (which meet the statutory definition of an online education program and offer students the opportunity to take all of their coursework online) and did not assess the fundamental potential of online schools to provide alternative educational opportunities for students. However, we did evaluate the factors that contribute to quality, accountability, and efficiency of online schools. We also surveyed a sample of parents and students and received mixed input; some approved of the online schools in which they were involved, and others cited concerns with online education.

Our audit identified risks and areas for improvement in the operation of online schools as referred to in the studies cited above. The first chapter of the report describes the need for improved oversight to ensure that online schools provide a

quality education to students. The second chapter presents findings related to one online school whose practices illustrate the risks of inadequate oversight of the online educational system by the State. The third chapter addresses the need for clarity and consistency in funding online schools. The last chapter discusses alternative models for overseeing online schools that serve students statewide. We found that the issues we identified throughout the audit are interrelated, with virtually all of them contributing to concerns about the quality of online education. Each of the chapters in the report highlights the unique aspects of online schools, the need for the State to establish standards for these types of schools, and the need for the Department of Education (Department) to take a more active role in overseeing and directing online schools. These steps will help ensure the quality of online education and assist the State in realizing the benefits of this unique educational approach.

CSAP Performance

In Fiscal Year 1997 the General Assembly established a school accountability program [Section 22-7-102, et seq., C.R.S.] intended to “define and measure academic and safety quality in education and thus to help the public schools of Colorado to achieve such quality and to expand the life opportunities and options of the students of this state.” The statute states that the accountability program should evaluate the achievement and performance of students and include in the evaluation process:

. . . means for determining whether decisions affecting the educational process are advancing or impeding student achievement; . . . testing procedures to provide relevant comparative data at least in the fields of reading, language skills, and mathematical skills; reporting to students, parents, boards of education, educators, and the general public on the educational and safety performance of the public schools and providing data for the appraisal of such performance; and the collection and provision of performance information that could help school districts to increase their efficiency in using available financial resources.

As part of the accountability program the General Assembly created the Colorado Student Assessment Program (CSAP), which tests student proficiency in grades 3 through 10 in core subject areas each year [Section 22-7-409, C.R.S.]. Finally, statute [Section 22-7-601, et seq., C.R.S.] requires school-by-school reporting of various performance indicators in annual School Accountability Reports (SARs). The reported indicators include CSAP performance, student-to-teacher ratios, school safety information, and the number of students who drop out or change schools each year. On the basis of the indicators on the SARs, the Department assigns each

school an annual accountability rating of excellent, high, average, low, or unsatisfactory.

To assess the quality of online schools, we reviewed a subset of the performance indicators that are reported in the SARs for the 12 schools in our sample. We analyzed data in a number of ways. First, we aggregated CSAP, attrition, drop-out, and repeater data for all students in the online schools in our sample. Second, we tracked the CSAP scores for a group of about 1,850 students who were enrolled in online schools during school year 2005-2006 and who received a CSAP score in school years 2003-2004, 2004-2005, and 2005-2006. Third, we analyzed CSAP results on a school-by-school basis. Our analytical approach is similar to that used by the Department, which typically reports achievement data on either a statewide or school-by-school basis.

In addition to the State performance measures, the 2002 federal No Child Left Behind (NCLB) Act established performance measures for K-12 education. NCLB requires states that accept NCLB funds to determine the Adequate Yearly Progress (AYP) of the State, districts, and individual schools in meeting annual targets established in each state. In measuring performance at the individual school or school district level, NCLB excludes all students who are new to the school or district each year. We did not use AYP as a performance measure for online schools because there were too many new students in online schools to reliably calculate an aggregate. Analyzing CSAP results allowed us to include all the online students in our sample of 12 schools.

We identified significant concerns with the performance of online schools as demonstrated by CSAP scores, attrition and dropout rates (the percentage of students who changed schools or dropped out of school), and repeater rates (the percentage of students who repeated a grade). It is important to note that most of the schools we evaluated report that they serve primarily at-risk students who attend online schools as a last resort. These schools indicated that low CSAP scores and high attrition, dropout, and repeater rates are to be expected among this population and that online students should, therefore, not be compared with the State as a whole. To identify the causes of the performance problems we found and to verify whether the primary cause is that the online schools serve a predominantly at-risk population, we evaluated various processes in place at the Department and the online schools in our sample. Specifically, we reviewed the Department's and State Board of Education's (State Board's) processes for overseeing school districts, the processes and definitions used to identify at-risk students, the role of teachers in online schools, and the Department's processes for designating schools as Alternative Education Campuses (meaning schools that serve primarily special education or high-risk students or students who have severe limitations that prevent proper administration of the CSAP).

As we discuss later in the chapter, we were unable to verify that the majority of online students in our sample of schools were at-risk. Further, we found significant weaknesses in all these areas that may contribute to poor student and school performance. The low performance results and problems we found are especially concerning because of the rapid growth of online schools; online school enrollment increased more than 226 percent (from about 1,900 students to about 6,200) between school years 2002-2003 and 2005-2006 and another 48 percent in 2006-2007, with a current estimated online enrollment of about 9,200 students. The growth in online enrollment makes it critical that the issues we discuss in the report are addressed immediately.

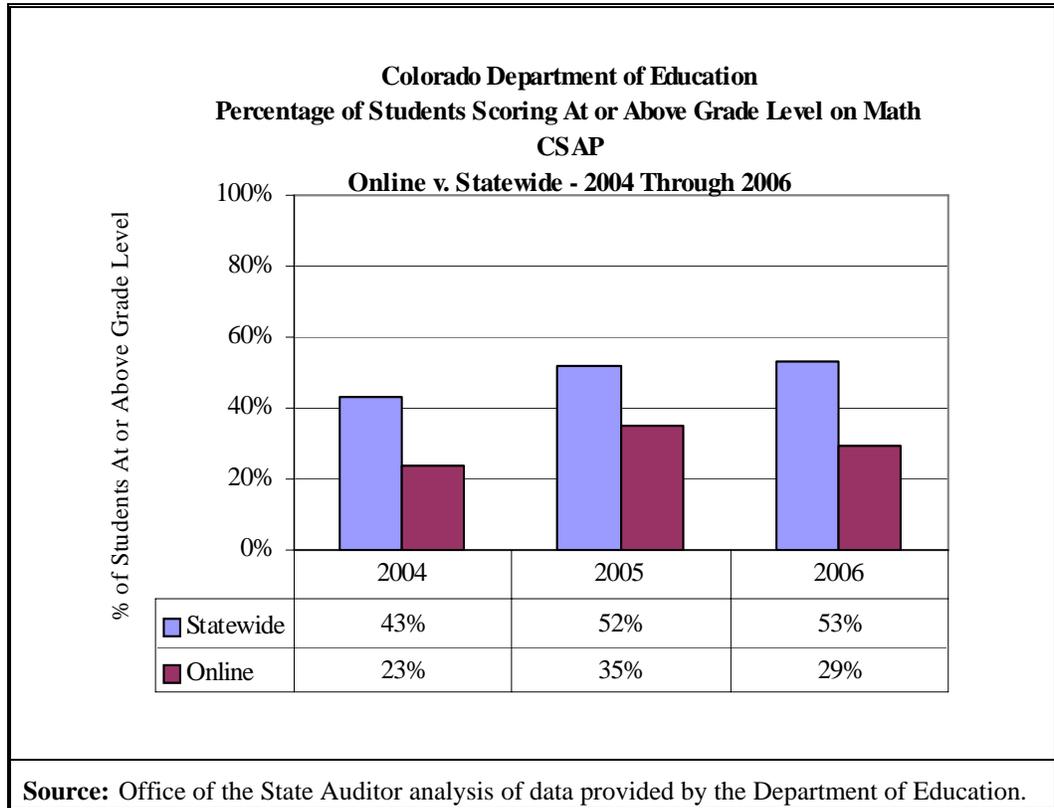
Currently, CSAP exams are administered statewide each spring to third through tenth grade students attending public schools in Colorado. About 450,000 students took the exams in school year 2005-2006. Students in all tested grades take exams in reading, writing, and math. Students in grades five, eight, and ten also take exams in science. Student performance is measured in terms of proficiency scores assigned on a scale of 1 to 4. According to the Department, scores of 3 or 4 (proficient or advanced) indicate the student is performing at or above his or her grade level in that subject. Scores of 1 or 2 (unsatisfactory or partially proficient) indicate the student is not performing at grade level in the subject. Students who do not take the exams are given a "No Score" and are weighted negatively in calculating each school's accountability rating. Thus, the more non-participating students a school has, the lower its accountability rating will be.

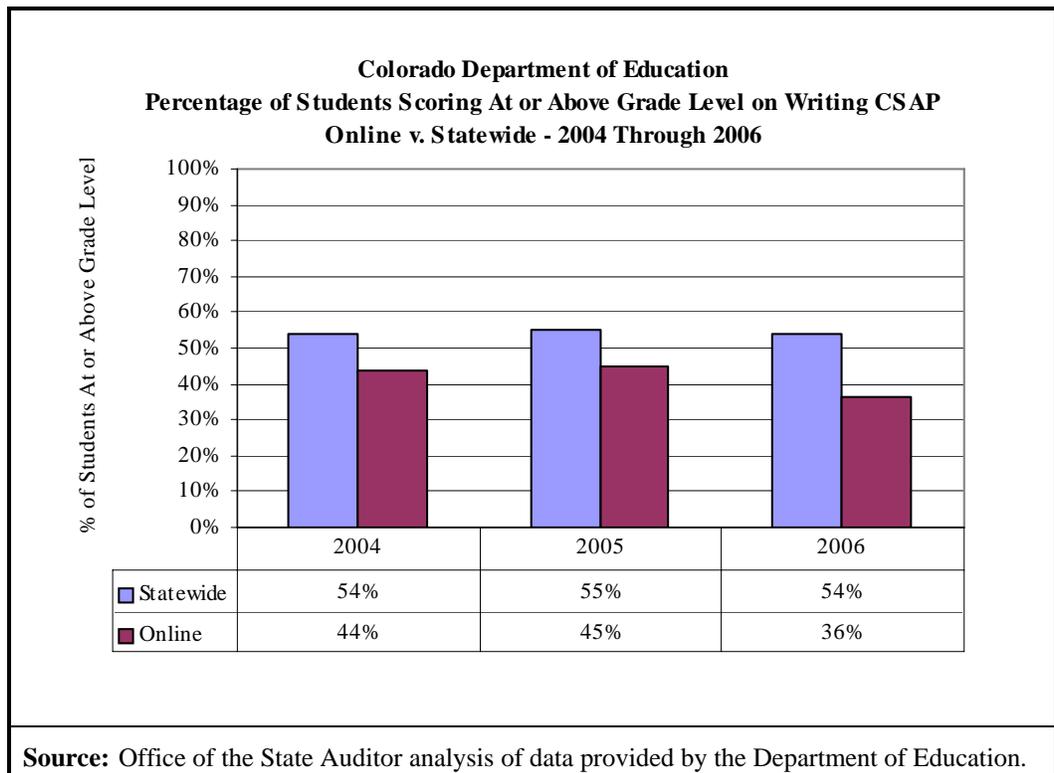
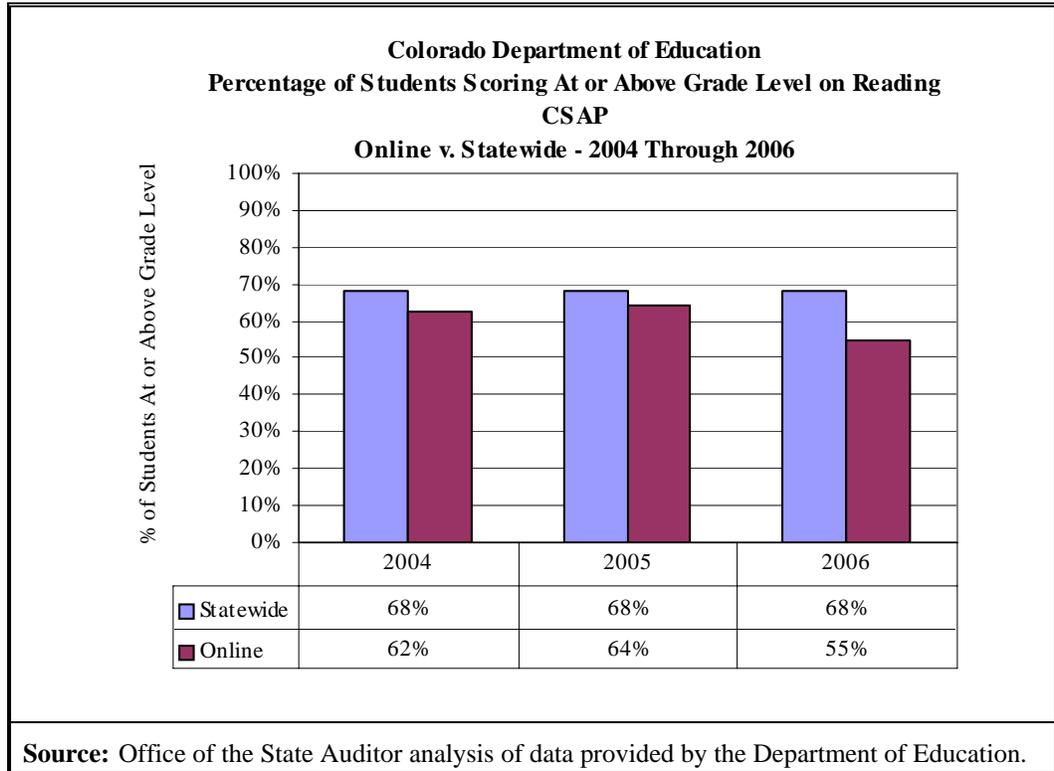
We analyzed CSAP data for the 12 online schools in our sample for school years 2004 through 2006. Although school districts report on students who do not take the CSAP exams (and therefore receive a score of zero), we only included CSAP results for students who completed the exams in our analysis of both online and statewide CSAP performance. We compared the aggregate scores for all of the tested online students in our sample of schools with the State as a whole. In aggregate, we found that online students performed worse on the CSAP exams than students in the State as a whole, as described in the following sections.

Online student enrollment increased about 63 percent between the 2004-2005 and 2005-2006 school years. Therefore, the 2006 CSAP results include scores for about 1,200 students who were new to online schools in 2005-2006. In addition, as we discuss later in the chapter, the online schools we reviewed had high attrition and dropout rates, which means that the population of students attending the online schools may vary considerably from one year to the next. These fluctuations in student populations present challenges for analyzing student performance and may impact CSAP results.

Online student CSAP scores in math, reading, and writing have been lower than the scores for students statewide over the last three years. As shown in the

following three charts, the percentage of online students scoring at or above their grade levels in math, reading, and writing was consistently lower than the State as a whole in 2004 through 2006. In addition, the percentage of online students in our sample of schools who scored at or above grade level declined between 2005 and 2006 for exams in all three subject areas.



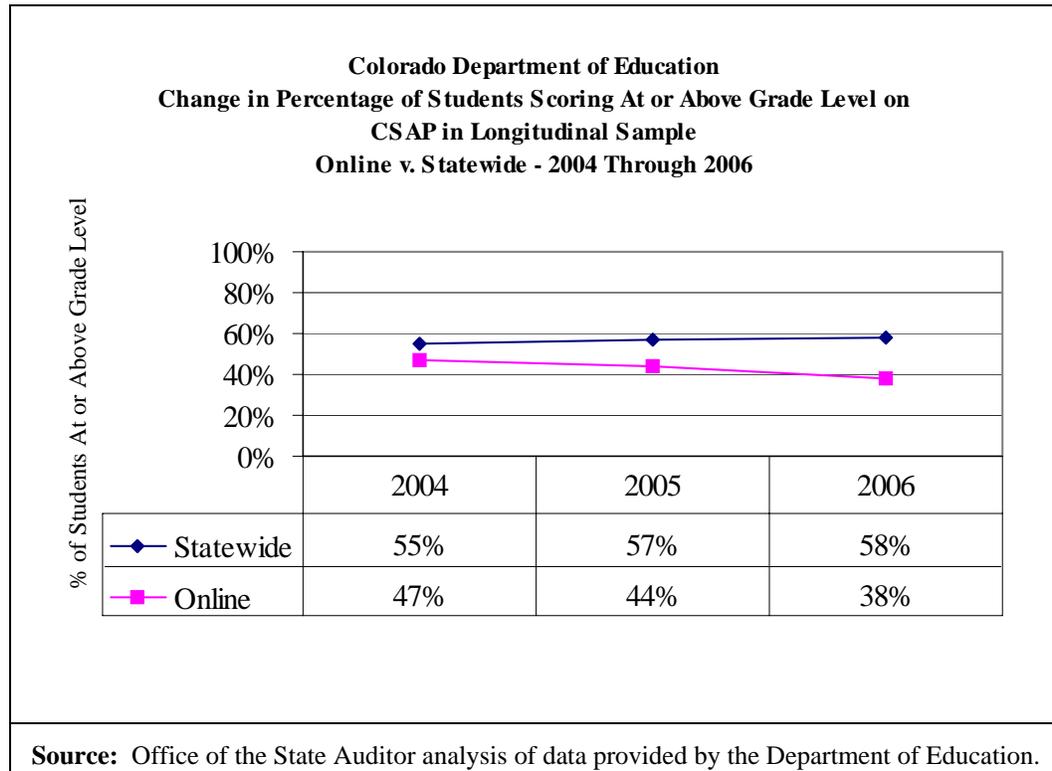


The difference in performance between online students and all students statewide is larger in higher grades. As shown in the table below, the percentage of students performing at or above grade level in reading, writing, and math decreases in the higher grades for both online and statewide students, but online student performance declines more substantially. For example, 64 percent of online third graders tested at or above grade level in reading compared with 45 percent of online tenth graders—a difference of 19 percentage points. For students statewide, 71 percent of third graders tested at or above grade level in reading compared with 70 percent of tenth graders—a difference of just one percentage point. Similarly, in math, 57 percent of online third graders scored at or above grade level compared with just 7 percent of online tenth graders—a difference of 50 percentage points. Students statewide did better on the math CSAPs, with 71 percent of third graders and 31 percent of tenth graders scoring at or above grade level—a gap of 40 percentage points.

Colorado Department of Education Percentage of Students At or Above Grade Level for Grades 3, 7, and 10 2006 CSAP Results						
Grade	Reading		Writing		Math	
	Online	Statewide	Online	Statewide	Online	Statewide
3	64%	71%	35%	52%	57%	71%
7	61%	65%	48%	57%	26%	45%
10	45%	70%	26%	52%	7%	31%

Source: Office of the State Auditor analysis of data from the Department of Education.

On average, online students' CSAP performance decreased over the three-year period we reviewed. We compared the performance of about 1,850 online students who were in grades 4 through 10 in school year 2005-2006 with their performance in the prior two years (school years 2003-2004 and 2004-2005), regardless of where they were enrolled in the prior years. Of the 1,850 students, about 330 (18 percent) attended online schools all three years, about 270 (15 percent) attended online schools for two of the years, and about 1,250 (68 percent) were new to online schools in school year 2005-2006. As shown in the chart below, the aggregated CSAP performance of the 1,850 students we analyzed decreased between the 2003-2004 and 2005-2006 school years from 47 percent of the students scoring at or above grade level to 38 percent. We also compared the performance trend of online students with the statewide aggregate and found the percentage of students testing at or above grade level statewide increased slightly over the three-year period. We found variances in the CSAP results, with some schools having similar performance to the state as a whole for students that were enrolled in the program for all three years, while others experienced decreasing performance—particularly for new students.



Although we focused our analysis on the aggregate results for the online schools in our sample, we did observe wide variations in the performance of online students. For example, some schools increased the percentage of students scoring at or above grade level in some subject areas over the three-year period while others had stable or declining student performance. The school-by-school analysis indicates that while online students, in the aggregate, performed below students in the State as a whole, not all online students performed below the statewide aggregate on all tests. Specifically, Colorado Virtual Academy (COVA) consistently performed near the statewide level in all subject areas, and Denver Online and Cotopaxi Home-School Partnership tested at or above the statewide level in some subjects in some years. Appendix A includes charts that provide school-specific performance data for the six largest schools in our sample for school years 2003-2004 through 2005-2006. These six schools account for about 20,000 of the 21,260 online CSAP exams (94 percent) in our sample during 2004 through 2006.

For 2004, 2005, and 2006 we also analyzed the performance of 3 of the 12 online schools in our sample (Hope Online Learning Academy Co-Op, Branson Online, and Vilas Online) on the American College Test (ACT), which all Colorado eleventh graders are required to take. We did not include the other nine schools in our analysis because two (COVA and Connections Academy) do not serve eleventh grade students; one (Lester Arnold) cannot distinguish between its brick-and-mortar and online students; and the other six schools (Colorado Online Learning Academy,

Cotopaxi Home-School Partnership, Karval Online, La Jara Second Chance School, Denver Online, and Monte Vista Online) had fewer than 16 students who took the ACT in 2005-2006. To ensure the privacy of student information, the Department does not report data for student groups of less than 16, so we used the same cutoff for our analysis. We found that, as a whole, the eleventh grade students in the three online schools we analyzed had lower average ACT scores than the State as a whole between 2004 and 2006. As with the CSAP results, we found variations among the individual schools. For example, Branson's scores were at or above the state average for two of these years, while Vilas Online performed below the state average all three years, and Hope Academy performed below the state average on the 2005-2006 ACT.

Repeater, Attrition, and Dropout Rates

Three additional measurements of school performance are student repeater, attrition, and dropout rates. Repeater rates measure the proportion of the student population that repeats a grade. Attrition rates measure the proportion of students who were enrolled in a specific school in the fall but were no longer enrolled in that school the following spring. Dropout rates are a subset of the attrition rate and reflect students who were enrolled at some time during the school year but are not enrolled in any school when the school year ends. High rates in these areas may indicate a school's inability to adequately serve its student population. We analyzed Department data to determine the repeater, attrition, and dropout rates of students enrolled in a sample of online schools during all years we reviewed and found that the rates for all three measures were considerably higher than for the State overall, as discussed below.

Repeater rates. We analyzed the Department's October count data for school years 2002-2003 through 2005-2006 for eight online schools: Branson Online, Colorado Virtual Academy, Connections Academy, Cotopaxi Home School Partnership, Denver Online, Karval Online, Monte Vista Online, and Vilas Online. We excluded four schools from our analysis: Colorado Online Learning Academy and Hope Online Learning Academy Co-Op because they were not open during 2002-2003 through 2004-2005, and La Jara Second Chance School and Lester Arnold because they were affiliated with brick-and-mortar schools, and we could not isolate the online students from the brick-and-mortar students. For the period 2002-2003 through 2005-2006, we compared the ratio of students in our sample who repeated the same grade in consecutive years in the online school with the ratio of students statewide who repeated a grade. As the table below illustrates, the online repeater rate was substantially higher than the statewide repeater rate. Online students were about four to six times more likely to repeat a grade than students statewide. According to some online schools, the high repeater rate may be because they use a mastery approach to promoting students, meaning students must master certain

concepts or receive a certain number of credits before they can be promoted. Also, some schools may promote students during the year and not between years.

Colorado Department of Education Repeater Rates for Colorado K-12 Public School Students School Years 2003-2004 Through 2005-2006									
	2003-2004			2004-2005			2005-2006		
	Number Enrolled	Number Repeated	Repeater Rate	Number Enrolled	Number Repeated	Repeater Rate	Number Enrolled	Number Repeated	Repeater Rate
Online	1,000	90	9%	3,200	370	12%	3,800	290	8%
Statewide	736,000	16,000	2%	742,000	16,000	2%	749,000	15,000	2%
Source: Office of the State Auditor analysis of data from the Department of Education.									

Attrition rates. Statute [Section 22-2-114.1(2), C.R.S.] mandates the collection of end-of-year data for all seventh through twelfth grade students. The Department used a different process to collect end-of-year data prior to school year 2003-2004. Therefore, we only analyzed end-of-year data for the 2003-2004 and 2004-2005 school years. We calculated attrition and dropout rates for the 8 online schools in our sample of 12 that were open during school years 2003-2004 and 2004-2005 as stand-alone schools (i.e., not affiliated with brick-and-mortar schools). As shown in the table below, we found that the attrition rate for the seventh through twelfth grade students in our sample of online schools was almost three times higher than the attrition rate for students statewide in 2003-2004 and almost four times higher in 2004-2005. School districts receive full funding for all students enrolled during the October count period regardless of the number of students who leave the school before the end of the year.

Colorado Department of Education Attrition Rates for Students in Grades 7 Through 12 School Years 2003-2004 and 2004-2005						
	2003-2004			2004-2005		
	Enrollment		Attrition Rate	Enrollment		Attrition Rate
	Fall	Spring		Fall	Spring	
Online Schools	1,360	920	-32%	1,690	960	-43%
Statewide	341,700	302,500	-11%	346,700	305,600	-12%
Source: Office of the State Auditor analysis of Department of Education data.						

Dropout rates. We analyzed the Department's dropout statistics for grades 7 through 12 for the same sample of eight online schools for school years 2003-2004 and 2004-2005. As shown in the table below, online schools had an aggregate dropout rate that was about three times higher than the statewide rate in 2003-2004 and more than six times higher than the statewide rate in 2004-2005.

Colorado Department of Education Dropout Rates in Online and Statewide K-12 Public Schools School Years 2003-2004 and 2004-2005		
	2003-2004	2004-2005
Online Schools	12%	26%
Statewide	4%	4%
Source: Office of the State Auditor analysis of Department of Education data.		

Our analyses of CSAP results and repeater, attrition, and dropout rates indicate that online schools may not be providing sufficiently for the needs of their students. These results could also indicate that the online schools have a higher concentration of at-risk students than the State as a whole, although, as we discuss later in the report, we could not verify that this was the case. The quality of online schools is particularly important; these schools can have a statewide impact because students in any school district can attend online schools based in any other school district in the State. Most of the online schools operating in Colorado to date have been established by small, rural school districts, but many of the students attending these schools reside in the Denver metropolitan area. In contrast, the quality of a brick-and-mortar school primarily affects the students within the geographic boundaries of that district.

In addition to raising concerns about educational quality, high repeater, attrition, and dropout rates in online schools can have important financial consequences for the State. First, when any student repeats a grade state and local monies pay for the same education more than once. Second, the State's cost to fund students in online schools is typically higher than for students in brick-and-mortar schools. This is because most online schools are currently based in rural school districts with a small local tax base. As a result, the State Share of funding is typically higher. Third, for dropout students, the State pays for an education that was not completed. Finally, there are long-term economic implications for the State and the individual when a student does not complete his or her education. Funding of online schools is discussed in detail in Chapter 3.

As the statewide oversight bodies for K-12 education in Colorado, the Department and State Board should analyze the performance of online students and use the analyses to develop policies and guidance to improve online education. Currently the Department compiles school performance data on the SARs but does not use the data to inform the State Board whether online students and schools are performing poorly nor does it use the data to develop guidelines and policies to address such performance. Further, the Department does not systematically use school performance data related to online schools in evaluating school districts for accreditation. Other states have developed processes to use performance information to improve their online programs. For example, Ohio and Pennsylvania require all

online schools to submit performance assessment data as key components of their annual school reports. These reports serve as contracts that contain both accreditation standards that the schools are expected to meet and plans for improving performance over time.

Recommendation No. 1:

The Department of Education should strengthen its oversight, awareness, and reporting of online school performance by:

- a. Analyzing performance data for online students on an ongoing basis and comparing with performance statewide. This information should be reported to the State Board of Education on an annual basis.
- b. Working with underperforming schools and districts to assess the causes of poor performance by online students and schools, and developing policies and guidelines to improve the performance of online students and schools.

Department of Education Response:

Partially Agree. Implementation Date: May 2007 for part “b” to begin any analyses required by the General Assembly if statutory direction and resources for such analyses are provided to the Department.

- a. Disagree. The Department of Education disagrees that it should analyze performance data for online students and report the results of the analysis to the State Board annually. The Department does not have responsibility to track or report on the performance results of individual groups of students. However, performance data for all students is reported through assessments, School Accountability Reports, and longitudinal reports.
- b. Partially Agree. If the General Assembly determines that additional analyses of online schools or students is needed and provides the Department the resources for such analyses, the Department will comply with the General Assembly’s direction. During the last two years, legislation has been introduced that would strengthen Department oversight, identify quality controls, and establish a review process and procedures for implementing statewide online programs. Although the proposed legislation was unsuccessful, the Department is willing to work with the General Assembly on future legislation.

Auditor Addendum

As noted in the audit report, online schools tend to perform poorly on the CSAP exams and have higher repeater, attrition, and dropout rates than the State as a whole. The Department is the repository of student data. As such, the Department is uniquely positioned to analyze student performance data for online students across the State and provide the analyses to the State Board as a basis for informed policy making for online education. The Department's role is key to ensuring that online students receive needed services to improve academically.

Monitoring Through Accreditation

The Department has an accreditation process that is intended to monitor education quality and student achievement at public schools, including online schools. According to statute [Section 22-11-102(4)(b), C.R.S.], "The use of an accreditation process will foster greater accountability . . . and will enhance improvement of public schools and school districts by setting benchmarks and measuring improvement in attaining those benchmarks." State Board rules govern the accreditation process for districts and schools. The Department is responsible for accrediting school districts and the districts are charged with accrediting their individual schools.

The Department conducts annual reviews of each district's progress on 11 accreditation indicators that require the district to have plans to improve and maintain educational quality; set and achieve goals for student performance and progress on the CSAP exams and through other assessments; comply with specified rules and statutes, including the Colorado Basic Literacy, Safe Schools, and Gun-Free Schools Acts; and comply with budgeting, accounting, and reporting requirements. Appendix B contains a complete list of the accreditation indicators. On the basis of the reviews, the Department prepares accreditation assessment reports outlining positive achievements and areas for improvement for each district.

State Board rules lay out the following process for school districts that either do not comply or do not show progress toward compliance with each accreditation indicator.

- **Accreditation Watch**—If a school district is not meeting all of the accreditation indicators, the Department is to place the district on accreditation watch. The district is required to submit an improvement plan to remedy accreditation deficiencies to the Department within 90 days of receiving written notice of its lack of compliance. The Department must approve or deny the plan within 30 days of receiving it.

- **Accreditation Probation**—If, after one year on accreditation watch, a district fails to meet all accreditation indicators, the Department is to place the district on accreditation probation. This requires the Department to closely monitor the district to ensure corrective action is taken.
- **Accreditation Revocation**—If, after one year on probation, the district fails to meet accreditation indicators or make sufficient progress toward compliance in accordance with its improvement plan, the Department may revoke accreditation. Revocation of accreditation would cause a district to lose state funding and could result in the reorganization of the school district. According to Department records, the Department has never revoked a school district's accreditation.

We examined the accreditation review process and accreditation assessment reports covering school years 2001-2002 through 2004-2005 for seven districts that have established online schools. We found that the Department did not effectively hold four of the seven districts accountable for failing to meet their accreditation indicators and for noncompliance with State Board rules, as follows.

First, as of the end of the 2004-2005 school year, four school districts—Vilas RE-5 (Vilas), Branson RE-82 (Branson), Karval RE-23 (Karval), and Denver Public Schools (Denver)—did not have written school accreditation processes. School districts are required to develop and implement accreditation processes for their schools and hold schools accountable for improving student achievement. This process should include periodic reviews of each school on a cycle established by the local school district. According to the Department, a good accreditation process includes a detailed written plan and system of review; specific, achievable, high goals for each school and the district; annual updates to the school improvement plan; and a parent advisory committee involved in the review. Denver had developed a school accreditation process by the 2005-2006 school year, and both Branson and Karval developed written accreditation processes to be implemented in the 2006-2007 school year. However, there is no indication that Vilas has made any progress toward developing an accreditation process. When a district does not have a school accreditation process in place, there is no assurance that its public schools, including its online schools, are appropriately accredited or monitored.

Second, we found that the Branson and Vilas school districts have been on accreditation watch for three consecutive years, but the Department has failed to place them on accreditation probation. Additionally, the Department has taken no steps toward revoking the accreditation of these districts. The Department's accreditation reports for the 2002-2003, 2003-2004, and 2004-2005 school years noted concerns in both districts related to poor CSAP performance, low CSAP participation, noncompliance with reporting requirements, and failure to evaluate students in the online programs for individual literacy plans, as required by statute.

Furthermore, the accreditation reports cited Vilas in all three years for weaknesses in its online program including not having data on how subpopulations of online students perform on the CSAP, as required under State Board accreditation rules. In addition, the 2004 accreditation report for Vilas noted that the district's poor student achievement results, including scoring well below the statewide average on the 2004 CSAP and ranking in the bottom 10 percent of all districts based on CSAP performance, were directly related to Vilas' online school. The Department specifically directed the district to analyze its online school to determine the school's overall effectiveness and value to the school district and to report the results back to the Department. There is no documentation indicating that Vilas provided this analysis, and the Department extended the district's accreditation watch for a third year (2004-2005), in part because of noncompliance with this requirement. Finally, according to Department staff, Vilas did not submit an improvement plan to address its deficiencies (required within 90 days of being put on accreditation watch) until after the end of the 2003-2004 school year, more than 14 months after being placed on watch in March 2003.

The Department could not sufficiently explain why it continued to accredit the Vilas, Branson, Denver, and Karval school districts when they lacked processes for accrediting their schools and why it failed to place Vilas and Branson on accreditation probation or revoke their accreditation over three consecutive years of recurring student and school performance problems.

We identified substantial concerns related to the Department's accreditation of the school districts with online schools that we reviewed. Because the Department's accreditation process is the same for all school districts, our findings indicate a risk that other school districts may be experiencing substantial performance problems but are not being adequately monitored by the Department. When the Department does not sanction districts for poor performance in accordance with State Board rules, districts have no incentive to meet accreditation indicators and adhere to improvement plans. Moreover, education quality and student achievement may decline further. The poor CSAP results and high attrition, repeater, and dropout rates discussed earlier in the report could result, at least in part, from the lack of an effective accreditation process at both the state and local levels.

In addition to problems with how the Department implements the accreditation process, we found that the accreditation system does not include intermediate penalties. The only sanction available to the Department for school districts that repeatedly fail to meet accreditation indicators is to ultimately revoke the district's accreditation. Revocation results in the school district being denied state funding and could lead to reorganization of the district. Intermediate sanctions such as monetary fines may be more effective in persuading school districts to make needed improvements. We believe the Department should work with the General Assembly

to seek authority to impose fines on school districts as an intermediate disciplinary action before progressing to full revocation.

According to statute [Section 22-11-102, C.R.S.], the purpose of the accreditation process is to promote and encourage a higher level of achievement among the public schools of the State. To help accomplish this purpose, the Department should strengthen its accreditation process by adhering to State Board rules, requiring increased oversight of school districts on watch and on probation, and revoking accreditation when necessary.

Recommendation No. 2:

The Department of Education should strengthen its oversight of school districts to improve the performance of online schools by:

- a. Adhering to all State Board of Education rules for accrediting and monitoring school districts.
- b. Working with the General Assembly to seek authority for intermediate penalties such as imposing fines on school districts as part of the accreditation process.

Department of Education Response:

Partially Agree. Implementation date: June 2007.

- a. Agree. The Department agrees that it will adhere to State Board rules for accreditation. In addition, the six-year Accreditation Contracts for all 178 school districts expire June 30, 2007. In anticipation of the renewal process, the Department currently is reviewing its existing Accreditation Rules and agrees that some changes are needed to improve the monitoring and accrediting of school districts. Rule changes may include removing the requirement that school districts be placed on accreditation probation after one year on accreditation watch to make the process more flexible.
 - b. Disagree. Although the Department disagrees with imposing fines as part of the accreditation process, the Department is available to assist if the General Assembly makes such a determination.
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At-Risk Students

The online schools we reviewed indicated that their students perform poorly on the CSAP exams because the majority of the students are at-risk. However, there is no generally accepted definition of an at-risk student for purposes of evaluating academic performance, so it is not possible to determine if the poor academic performance of online students is due to their at-risk status. We found a number of statutes that define at-risk (or in one case, high-risk) students in terms of K-12 education as well as statutes that mention at-risk students but do not define them. Specifically:

- Section 22-7-604.5, C.R.S., defines high-risk students for alternative education campuses which are exempt from having a school rating assigned on their annual School Accountability Report (SAR). The statute states that high-risk students are secondary students who (1) have been adjudicated as juvenile delinquents; (2) have dropped out, been expelled, or been repeatedly suspended from school; (3) have a history of drug or alcohol abuse; (4) have been involved with a street gang; (5) have suffered child abuse or neglect; (6) have a parent in prison; (7) have a history of domestic violence; or (8) are parents or pregnant.
- Section 22-30.5-103, C.R.S., defines an “at-risk pupil” as “a pupil who, because of physical, emotional, socioeconomic, or cultural factors, is less likely to succeed in a conventional educational environment.” This section of statutes relates to the establishment of charter schools. However, the statute does not provide any additional definitions or guidance in determining what physical, emotional, socioeconomic, or cultural factors are likely to have a negative effect on a student’s ability to succeed in a conventional educational environment.
- Section 22-30.5-502, C.R.S., defines an “at-risk student” as “a student who is eligible to receive free or reduced-cost lunch pursuant to the . . . federal ‘National School Lunch Act’ or who has performed at the proficiency level of ‘low’ or ‘unsatisfactory’ on a statewide assessment.” This section of the statutes relates to charter schools approved by the Charter School Institute (CSI). The CSI is discussed in more detail in Chapter 4.
- Section 22-38-103, C.R.S., defines an “at-risk student” as a “student who is in the sixth, seventh, eighth, or ninth grade who is under 17 years of age and who has been the subject of at least one suspension in the past year.” This section of the statutes relates to the establishment of pilot schools for expelled students.

- Section 22-54-103, C.R.S., defines “at-risk pupils” as “pupils whose dominant language is not English [or] . . . pupils eligible for free lunch [under the National School Lunch Act].” This section of the statutes contains definitions for funding public education under the Public School Finance Act.
- Section 22-33-202, C.R.S., requires schools to adopt policies to identify students who are at risk of suspension or expulsion from school so that the district may offer preventive services to such students. However, the statute does not define an “at risk” student.

The Department also considers students who are eligible for the Federal Free and Reduced Meal program (FARM), special education students, and students who have been expelled, to be at-risk for the purpose of tracking students who are in danger of not completing their education.

The online schools we reviewed consider many of the factors included in the definitions above to be indicators of at-risk students. However, we found that some schools also use the term “at-risk” more broadly to describe students who participate in outside activities such as jobs, music programs, or rodeo; who have transferred from a district that has poor CSAP performance; who have health problems; or who are habitually truant. A few of the online schools in our sample stated that all of their students are at-risk simply because they attend the online school.

In addition, regardless of the definition or standard used to identify at-risk students, we found that the online schools we reviewed did not consistently document which students are at-risk and why. We reviewed a sample of 346 student files at nine online schools (Branson Online, Colorado Online Learning Academy, Colorado Virtual Academy, Connections Academy, Denver Online, Hope Online Learning Academy Co-Op, Karval Online, Monte Vista Online, and Vilas Online) and found that 277 of the files (80 percent) had no documentation indicating that the student was at-risk by any definition. We also reviewed CSAP data and found that in school year 2005-2006 about 675 of about 3,500 online students (19 percent) who took the CSAP were considered at-risk according to the indicators used by the Department for tracking and monitoring purposes (they were FARM eligible, in special education, and/or were expelled). In contrast, about 157,900 of the approximately 458,000 students (34 percent) who took the CSAP statewide in school year 2005-2006 were FARM eligible, in special education, or expelled. One reason the percentage of at-risk students enrolled in online schools (using these three indicators) was substantially lower than the statewide percentage is that online schools may not identify all students who are FARM eligible because they do not participate in the FARM program which provides meals to students during the school day.

Due to the lack of a standardized definition of at-risk, as well as incomplete data collection and documentation of at-risk students by online schools, it is not possible to determine if online schools have a higher percentage of at-risk students than other schools and whether the at-risk students account, at least in part, for the poor CSAP performance of online schools. Online schools need to be able to consistently identify at-risk students so they can offer programs to address the needs of these students and improve their academic performance. Our analyses of CSAP scores, as discussed earlier in the report, do not show ongoing improvement among online students.

The Department should review the statutory definitions of at-risk and high-risk students to determine if one or a combination of existing definitions could be used to identify at-risk students for purposes of assessing academic performance. If the Department concludes that none of the existing definitions of at-risk or high-risk students, alone or in combination, adequately defines at-risk students for academic evaluation purposes, the Department should work with the State Board, and the General Assembly as needed, to develop a separate at-risk definition. Once a definition of at-risk students has been determined for use in evaluating academic performance, the Department should inform schools and school districts of the definition. In addition, the Department should include in its accreditation indicators a requirement for school districts to set goals and establish processes to improve the performance of at-risk students, as defined through this process. The indicator should also specifically require that districts track and report at-risk student progress.

Recommendation No. 3:

The Department of Education should clarify the definition of at-risk students for use in evaluating student academic performance by:

- a. Reviewing the statutory definitions of at-risk and high-risk students and determining whether one or a combination of the existing definitions of at-risk students could be used for purposes of assessing academic performance. If so, the Department should designate that definition or combination of definitions for use in evaluating student academic performance.
- b. Working with the State Board, and the General Assembly as needed, to develop a new at-risk definition if the Department concludes that none of the existing definitions of at-risk or high-risk students, alone or in combination, is adequate.
- c. Including in its accreditation indicators a requirement for school districts to set goals, to establish processes to improve the performance, and to

specifically track and report on the academic progress of at-risk students, as defined through this process.

Department of Education Response:

Partially Agree. Implementation date: June 2007.

- a, b. Agree. The General Assembly has defined “at-risk” in various places throughout statute. The Department agrees to review the current statutes and work with the General Assembly to define “at-risk” as it relates to student performance. For the State Board to establish a definition of at-risk for this purpose may violate current statute or go beyond its jurisdiction.
- c. Partially agree. The Department agrees through the accreditation process to support districts in setting goals for academically at-risk students and to track the academic progress of students but does not agree to require goal setting and reporting as part of the accreditation indicators. Additional resources would be required at the Department as well as at the local school districts.

Teaching and Assessment Roles in Online Schools

The Department is responsible for licensing educators in Colorado. According to statute [Section 22-63-201(1), C.R.S.], a teacher’s license is required for employment as an educator in a Colorado school district or public school. Further, NCLB requires that “highly qualified” teachers instruct students in core subject areas including English, social studies, science, and mathematics. To be highly qualified under NCLB, an educator must have a state license, hold a bachelor’s degree, and have demonstrated subject-area competency. To demonstrate subject-area competency, a teacher must fulfill one of a number of requirements, such as completing 24 semester hours in the core academic area or passing a content area test adopted by the Department. Public charter schools can request a waiver from the teacher licensing requirements. All Colorado school districts must be in compliance with the NCLB highly qualified teacher requirement by the end of the current school year (2006-2007). The purpose of requiring licensed and highly qualified teachers in public schools is to enhance education quality and provide a safe school environment for students.

Currently statutes and rules do not differentiate between the roles and requirements of brick-and-mortar and online teachers. However, the delivery of instruction differs substantially between an online and a brick-and-mortar environment. While brick-

and-mortar teachers provide face-to-face instruction during scheduled class periods, online teachers have a more facilitative role. Online teachers are typically physically separated from their students and, therefore, provide instruction via email, telephone, and interactive online platforms to students with varying learning schedules. As a result, it is unclear how instruction and student assessment should be carried out in an online environment. In addition, NCLB does not directly address online teacher requirements, so it is unclear how the NCLB highly qualified teacher standard applies to online schools. We evaluated the instructional practices of the 12 schools in our sample and identified 5 schools that do not appear to comply with state licensing requirements and federal standards for having highly qualified teachers in public schools, as described below.

Lack of highly qualified or properly licensed teachers. We identified four online schools that did not have either highly qualified or properly licensed teachers. Specifically:

- Hope Online Learning Academy Co-Op (Hope Academy) is required under its charter agreement with Vilas School District to have highly qualified teachers in all core subject areas. However, Hope Academy lacked licensed or highly qualified teachers in the following areas: (1) secondary science and social studies during the entire 2005-2006 school year, (2) secondary language arts from December 2005 through the end of the school year, and (3) elementary education until November 2005. In total, Hope Academy served about 1,500 students in grades K-12 with as few as three and no more than four highly qualified teachers at any one time during the 2005-2006 school year.
- Lester Arnold Online High School had one online teacher for grades 9 through 12 during school years 2003-2004, 2004-2005, and 2005-2006. This teacher is licensed in health education and highly qualified in science and Spanish under NCLB but oversees online high school students taking a full range of classes, including social studies, language arts, and mathematics. It is questionable whether one teacher can provide adequate instruction and assessment for 15 students in all subject areas.
- Vilas Online contracted with four individuals as teachers who did not have Colorado teaching licenses. One taught physical education, consumer science, and work-study for four years with an expired license; another taught computer applications for one and a half years with an expired license; and the other two taught classes in the 2004-2005 and 2005-2006 school years without having ever obtained teaching licenses. One of these two was responsible for elementary students, and the other taught secondary language arts.

- Karval Online employed one individual who only had authorization as a substitute teacher to teach a Spanish class for two complete school years—2004-2005 and 2005-2006. According to statute [Section 22-63-103(10), C.R.S.], a substitute teacher is only authorized to work “on one continuous assignment for a total of less than ninety regular school days, or for less than one semester.”

Instruction and assessment provided by parents and mentors. We identified two online schools that allow parents or unlicensed mentors to provide student instruction and assessment with some supervision by licensed teachers. First, at Colorado Virtual Academy (COVA), parents are expected to play the leading role in day-to-day lesson delivery and receive guidance from licensed teachers. This instructional model is similar to a home-school rather than a traditional brick-and-mortar public school. Second, Hope Academy contracts with learning centers that hire mentors to work with students on a day-to-day basis. The mentors have a significant instructional role in the learning centers, being responsible for monitoring the computer labs, assigning work, and grading assignments. Hope Academy teachers are required to visit the learning centers once a week, oversee and support the mentors and assess whether each student is progressing on a regular basis through assigned work. Using mentors instead of highly qualified teachers to instruct students does not appear to comply with state and federal teaching requirements. This issue is discussed in more detail in Chapter 2.

We also found that the statutory requirement for assessing online students has not been clearly defined. Statute requires school site coordinators, either a teacher or counselor, to conduct an in-person evaluation of each online student. However, neither statute nor State Board rules indicate what the in-person evaluation should entail, how often it should be done, or how it should be documented. As a result, online schools vary in their interpretation of this requirement. For example, some schools in our sample defined the evaluation as a formal meeting between the teacher and student, while others believed informal meetings, such as school picnics, were sufficient. Further, some of the schools in our sample reported that they met the requirement by having the site coordinator administer the CSAP exams.

The lack of clarity regarding the role of online teachers and the requirements that online schools must follow may have contributed to the poor student performance discussed earlier in the chapter. The Colorado Online Education Programs Study Committee (Committee) recommended to the State Board and the Education Committees of the State House and Senate in May 2003 that teachers be directly and actively involved in teaching online students through constant communication. In addition, the Committee saw the role of mentors as assisting and supporting teachers, and in cases where mentors were on-site, their role was to supplement the direct and frequent interaction between teachers and students. All eight of the states we

surveyed require, at a minimum, that teachers be directly involved in teaching and grading and be highly qualified in the subjects they teach.

To help ensure that online students receive instruction and assessment from qualified teachers, the Department should develop standards for online teaching. These standards should, at a minimum, require teachers to play a primary role in instructing and assessing online students. The Department should also expand the accreditation requirements and process to ensure that school districts meet all state and federal teacher requirements.

Recommendation No. 4:

The Department of Education should strengthen and clarify the role of teachers in online schools by:

- a. Working with the General Assembly to define the role of online teachers to ensure that teachers play the primary role in teaching and assessing students.
- b. Working with the State Board of Education to develop and implement regulations that provide schools and school districts guidance on conducting the in-person evaluation of online students required by statute. The regulations should clarify what activities are considered to be in-person evaluations for purposes of compliance with the statute.
- c. Enhancing the accreditation process to ensure that school districts employ qualified teachers for all subject areas and grades taught in each school. This should include adding a specific indicator to the accreditation requirements relating to the employment of qualified teachers and ensuring that the accreditation review process assesses districts against this indicator.

Department of Education Response:

Partially Agree. Implementation date: July 2007.

- a. The Department agrees to work with the General Assembly to define the role of an on-line teacher and any special requirements. The Department agrees that it would be supportive of districts to clarify the role of the teacher in on-line education and to ensure that teachers play a primary role in both teaching and assessment in online education.
- b. The Department disagrees that it should develop and implement regulations that provide schools and school districts guidance on

conducting the in-person evaluation of online students required by statute. The Department believes that the statute is clear and that districts are provided guidance when requested.

- c. The Department disagrees that it should enhance the accreditation process by including a specific accreditation indicator relating to the employment of licensed educators and ensuring that the accreditation review process assesses districts against this indicator. School districts are required by statute to employ licensed and qualified teachers, unless a district or charter school has received waivers from the State Board. Through the accreditation process, the Department already asks each school district to affirm that it complies with all laws and regulations, which would include teacher licensing requirements. However, it is the responsibility of the local school district to ensure compliance with all statutory requirements.

Auditor Addendum

Our audit found that, although the current accreditation process requires school districts to affirm that they comply with statutes, 4 of the 12 online schools we reviewed lacked properly licensed and/or highly qualified teachers for their students and 2 online schools rely primarily on parents or other unlicensed individuals to play a key role in instructing and assessing students. These findings demonstrate a clear need to strengthen the accreditation process to ensure school districts comply with applicable requirements.

Teacher Licensing and Reporting Requirements

The Department collects data about teachers in a human resources database containing detailed information on district and school employees including educational background, position codes, salary figures, and teaching subject-area assignments. The human resources data are reported to the Department each December by all school districts and are used, in part, to produce school staffing information on the School Accountability Reports (SARs) and to determine if school districts are meeting NCLB highly qualified teacher requirements. We compared the human resources database, which contains data reported by school districts most recently in December 2005, with information provided to us during the audit and identified omissions and inaccuracies in reporting, including the following:

- **Branson Online:** Three paraprofessionals were reported as teachers by the Branson school district.

- **Connections Academy:** None of its nine teachers were reported to the Department by Denver Public Schools.
- **Denver Online:** Three part-time teachers were not reported to the Department by Denver Public Schools, and one secondary social studies teacher was reported as an English language arts teacher.
- **Hope Academy:** All three teachers employed by this school on December 1, 2005 were reported as paraprofessionals by the Vilas school district.
- **La Jara Second Chance School:** One program coordinator was reported as a teacher by the North Conejos school district.
- **Lester Arnold:** One health education teacher was reported as a math teacher by the Adams County 14 school district.
- **Vilas Online:** None of its 13 teachers or 2 paraprofessionals were reported to the Department by the Vilas school district.

Statute [Section 22-7-605(2), C.R.S.] requires that “each public school and school district . . . report accurately any data required to produce a school accountability report” The statute also prescribes penalties for noncompliance with the reporting requirement. First, statute states: “If, after a reasonable period of time, the Department determines that a public school or a school district has failed to comply fully and accurately with the data reporting . . . requirements . . . the State Board shall rescind the accreditation of the school district” The statute also states: “If the State Board determines that a school district or one or more of the public schools in the school district is in willful noncompliance with . . . [these reporting requirements], the State’s share of the school district’s total program . . . shall be subject to forfeiture until the school district and each public school in the district complies with the . . . [requirements].”

Without complete and accurate information from school districts, the Department cannot determine the State’s progress in having only highly qualified teachers provide instruction in public schools in accordance with NCLB requirements. Additionally, the Department cannot ensure the accuracy of information reported to the public through the school accountability reports.

To improve the accuracy of the human resources database, the Department should establish a review process to verify reported data, possibly using a sampling or risk-based approach or identifying and investigating anomalies such as when districts report that a school has no teachers. The Department should use the verification process to identify districts that report data incorrectly and provide focused outreach and training to these districts. Once it has a verification process in place, the

Department should impose penalties for noncompliance with the data reporting requirement in accordance with its statutory authority.

Recommendation No. 5:

The Department of Education should improve the accuracy of its human resources database by:

- a. Implementing a process to verify data reported by school districts, possibly using a sampling or risk-based approach or identifying and investigating anomalies.
- b. Using the verification process recommended in part “a” to identify districts that have not reported data correctly and conducting outreach to these districts.
- c. Imposing the penalties required by statute for noncompliance with data reporting requirements.

Department of Education Response:

Agree. Implementation date: December 2007.

- a. The Department agrees that it will implement a process to verify data reported by school districts by conducting a periodic cross-unit departmental review of existing Human Resources, Highly Qualified Teachers, and School Accountability Report data and processes regarding online teachers and staff. The Department has already strengthened edits in the 2006-2007 collection by creating an error message that is generated if a particular school reports that it has no teachers. Edits regarding online and other specialized school teachers and staff will continue to be analyzed and refined to increase reporting accuracy.
- b. The Department agrees to use the verification process to identify districts that do not report data correctly and provide focused outreach to such districts. The Department already offers periodic training on data reporting that all school districts may attend. For example, in October 2006, the Department provided a series of trainings regarding the 2006-2007 Human Resources data collection, focusing on the integration of special education staff data into one comprehensive human resources collection. Another series of trainings will be provided for the 2007-08 collection as well. The Data and Research Unit is currently providing

intensive one-on-one training to district human resources contacts who are responsible for reporting online school staff for the 2006-2007 collection.

- c. The Department agrees to impose the penalties required by statute for noncompliance with data reporting requirements, although the Department has a history of proactive edit modification and increased technical assistance rather than punitive measures against districts which have misreported.

Alternative Education Campus Designation

The School Accountability Reports (SARs) issued annually by the Department include an overall academic performance rating for each school. Schools are rated as excellent, high, average, low, or unsatisfactory based on student performance on the CSAP exams. Statute [Section 22-7-609, C.R.S.] requires a school district to submit an improvement plan for any school within the district that receives an unsatisfactory rating to the State Board for review by the Department. Subsequent unsatisfactory ratings can result in modification to the improvement plan or conversion to an independent charter school.

Statute [Section 22-7-604.5, C.R.S.] allows schools designated by the State Board as Alternative Education Campuses (AECs) to be exempt from the school rating requirement. The Department administers a designation process whereby school districts may apply to the State Board to have a school designated as an AEC if it meets statutory criteria. In accordance with the statute, a school may be designated as an alternative education campus if it serves one of the following four student populations:

1. Students with severe limitations that preclude appropriate administration of the CSAP.
2. More than 95 percent special education.
3. Part-time students who are counted in the enrollment of another school.
4. More than 95 percent high-risk, defined by Section 22-7-604.5(1.5), C.R.S., as secondary students who: have been adjudicated as juvenile delinquents; have dropped out, been expelled, or been repeatedly suspended from school; have a history of drug or alcohol abuse; have been involved with a street gang; have suffered child abuse or neglect; have a parent in prison; have a history of domestic violence; or are parents or pregnant.

Further, statute requires that all AECs (1) have a specialized mission and serve a special needs or at-risk population, (2) be an autonomous school, (3) have an administrator and budget that are separate from those of any other public school, and (4) have nontraditional methods of instruction delivery.

Since 2002, the Department has designated five schools with online students as alternative education campuses. Four schools—Colorado Online Learning Academy (COLA), La Jara Second Chance School, Huerfano Alternative Cyberschool, and Alamosa Open High School—were designated as AECs under the 95 percent high-risk criterion. The fifth school—Monte Vista Online Academy—was designated as an AEC under the criterion for serving students with severe limitations. We reviewed the Department’s documentation supporting its AEC designations for these online schools and identified a number of weaknesses in the AEC designation and oversight processes.

First, we found the Department has insufficient procedures for reviewing and approving applications. In particular, applicants are not required to provide documentation to support the information in their applications, and the Department does not thoroughly review the applications for reasonableness and investigate irregularities. As a result, two of the five online schools designated as AECs did not appear to meet the statutory criteria at the time of application. Specifically:

- The Department could not provide documentation indicating why Monte Vista Online Academy was approved as an AEC in 2002 under the severe limitations category. The school provided documentation to us indicating that the severe limitations were that students had to travel long distances to take the CSAP exams. We question whether this limitation is consistent with the intent of the statutes governing the AEC process. Neither the General Assembly nor the State Board have defined the term “severe limitations.”
- Colorado Online Learning Academy’s (COLA’s) initial application for designation was submitted about seven months before and approved by the Department about two months before the school began operations. Because the school was designated as an AEC before it opened it is unclear whether the information in the application was accurate. We noted irregularities and errors in the application that were not investigated by the Department. For example, the school reported that 101 of its estimated 185 students for the 2005-2006 school year would be pregnant or parents. The Department did not question COLA about these figures to determine how the school could project the number of students who would be pregnant or parents before the school opened. In addition, the district indicated to the Department that COLA would have a separate budget and administrator; however, we found COLA and Vilas Online operate essentially as two parts of the same school, with the same curriculum, instructors, administrators, and budget. According

to information from the school district, the only differences between COLA and Vilas Online are that COLA has a higher concentration of students with performance problems and the school offers some additional oversight of the students. The higher proportion of students with performance problems occurs because some of these students are transferred by the school district from Vilas Online to COLA for additional monitoring. Furthermore, Department staff mistakenly applied the AEC status to Vilas Online for the 2004-2005 school year and, as a result, did not give Vilas Online a performance rating on the SAR for that year.

The second problem we found with the AEC process is that the Department did not require schools designated under the 95 percent high-risk category to provide required data on student progress. Statute [Section 22-7-604.5(2.5), C.R.S.] requires an AEC application to include an agreement to demonstrate initial baseline levels and measurable annual benchmarks on student academic performance and growth. The statute also requires the school to demonstrate accomplishment of the annual benchmarks or submit a school improvement plan. None of the four online schools (COLA, La Jara, Alamosa, or Huerfano) that were designated under this category included initial baseline data or annual benchmark targets for student academic performance in their original applications for AEC status. Additionally, La Jara and Alamosa (which were designated as AECs in the 2003-2004 and 2004-2005 school years) did not submit student performance data until the Department requested the data in January 2006. At this point La Jara and Alamosa had been AECs for two full school years, Huerfano for one full year, and COLA for one semester. The Department cannot effectively hold AECs accountable for student performance without collecting and analyzing benchmark data and requiring school improvement plans from AECs that fail to meet performance targets.

We found that the AEC application form used when these four schools were approved did not state that schools were required to report on all three performance measures specified in statute. These measures are (1) academic progress on CSAP and other standardized assessments, (2) student academic performance such as dropout rates or course completion, and (3) nonacademic or behavioral improvement such as employment or attendance rates. Instead, the application directed schools to select the performance measures on which they wished to report. The Department also did not provide information on when and to whom baseline and performance data should be submitted. If schools do not report baseline and student performance data, the Department cannot determine if the schools demonstrate accomplishment of the annual benchmarks.

The third problem with the Department's AEC designation process is that the Department has not required schools to reapply for AEC designation each year. Statute [Section 22-7-604.5(2), C.R.S.] states “. . . on or before October 1 each year . . . the district school board for any public school that desires to be considered an

alternative education campus . . . shall file with the State Board a request for designation . . .” and the State Board is to approve applications by each November. The Department interpreted this section of statute to apply only to new applicants. As a result, the Department allowed schools to operate as AECs for up to four school years (2001-2002 through 2004-2005) without reapplying for AEC designation. Department staff stated that they believe schools do not change enough to necessitate a renewal application every year. However, we found that the student attrition rate among online schools is higher than the statewide rate, which may indicate a need for more frequent submission of applications by online schools. Further, a formalized renewal cycle should be established for all schools to ensure adequate oversight of the AEC process.

In 2006 the Department made some improvements to the AEC designation process. First, the application was modified to ensure that schools reported on all three performance measures required by statute. Second, the Department requested performance data in January 2006 as discussed above, and a few months later AEC schools were required to submit renewal applications. It should be noted, however, that deficiencies in the administration of the AEC designation process still exist and should be corrected. Performance reporting standards, including when and how often schools should report data and to whom at the Department such information should be reported, are absent from the revised application. Further, the Department has not established written policies or procedures outlining AEC renewal requirements or requiring that applications be reviewed for reasonableness and accuracy, and schools are still not required to submit documentation supporting the information in their applications.

The problems we found with the AEC process may be due, in part, to an absence of written Departmental policies or procedures and to State Board rules that conflict with statutes in two areas. First, State Board rules appear to allow only secondary schools to be designated as AECs. However, according to statute, schools that serve grades K-12 may be designated as AECs unless they are applying under the 95 percent high-risk category, which is available only to secondary schools. Second, State Board rules do not clearly require schools applying under the 95 percent high-risk category to meet the statutory criteria of having a specialized mission, to be an autonomous school with a separate administrator and budget from any other public school, and to have nontraditional methods of instruction delivery.

The absence of policies and the conflicts between statutes and State Board rules may have generated confusion regarding the criteria for the alternative education campus designation. Therefore, in addition to improving its oversight and management of AEC schools, the Department should work with the State Board to ensure that alternative education campus rules agree with the statutes governing the AEC designation process. It is important that the Department address the weaknesses in the AEC process. Without strengthening the process, students attending AEC

schools may not receive the services they need and their academic performance may not be assessed to help ensure they make ongoing progress.

Recommendation No. 6:

The Department of Education should improve its oversight and management of the alternative education campus designation process by implementing written policies and procedures that:

- a. Clearly state the qualifying criteria a school must meet to be designated as an alternative education campus and require applicants to provide documentation with the applications that demonstrates that they meet the criteria.
- b. Establish an academic performance reporting system that stipulates when and how often schools designated under the 95 percent high-risk category must report student performance data and which unit of the Department should receive and review such data.
- c. Define “severe limitations” for purposes of designating schools as AECs.
- d. Establish a renewal cycle that stipulates how frequently schools must re-apply or renew their applications for AEC designation and maintain documentation that justifies the approval of AEC status for each school that receives the designation for a pre-determined period of time.
- e. Require the Department to review applications for reasonableness and investigate any data that appear questionable.

The Department should also modify the application form to reflect parts “a” through “c”, above.

In addition to developing written policies and procedures, the Department should correct provisions in the State Board of Education rules that conflict with the statutory requirements relating to alternative education campus qualifying criteria.

Department of Education Response:

Agree. Implementation date: June 2007. The Department agrees to improve the alternative education campus designation process by developing and implementing written policies and procedures that: (a) stipulate the qualifying criteria a school must meet to be designated and require applicants

to provide documentation to support the application; (b) clarify that the Department will maintain documentation justifying the approval of schools as AECs and will review applications and investigate data that appear questionable; (c) establish an academic performance reporting system for schools designated under the 95 percent high-risk category; (d) establish a renewal cycle for schools to renew their AEC applications; and (e) define “severe limitations” for the designation process. The Department undertook an internal review of the AEC designation process in January 2006 which resulted in some procedural changes and modification of the application to clarify that schools must report on all three performance indicators required by statute. The Department also requested, in January 2006, student performance data for schools that had been previously designated. Revised rules to address conflicts between the rules and statute will be drafted for State Board of Education consideration in Spring 2007.

Conflicts of Interest

State Board of Education members must comply with the provisions of Article 18 of Title 24 of the Colorado Revised Statutes, which sets forth rules of conduct and ethical standards for elected officials. Although these statutes do not provide specific guidance on what board members must do in cases of real or perceived conflicts of interest, we found that the State Board has not developed a written code of conduct or policies and procedures to guide its members in identifying and handling conflicts of interest.

During our audit we identified no conflicts of interest directly related to online education. However, we interviewed all eight board members and learned that two board members may have conflicts related to charter schools. One involves a board member who is also the executive director of the Charter School Institute (Institute), which is located within the Department of Education and is under the supervision of the Commissioner of Education. The Institute approves and oversees charter schools in school districts that do not want to approve and oversee charter schools themselves. The State Board obtained an informal opinion from its Attorney General representative which states that there is no statutory provision that would prevent the executive director of the Institute, who is an employee of the Department, from being a State Board member. However, the State Board’s operating procedures appear to recognize the potential conflict of a board member also being a Department employee. The Board’s procedures prohibit a board member from accepting employment in the Department until six months after leaving office. The second situation that poses a potential conflict is a board member who assisted in establishing several charter schools in the State. According to board members, both individuals generally recuse themselves from decisions regarding charter schools.

The State Board is entrusted with making policy decisions and ensuring that education funds are disbursed appropriately. It is important that board members disclose real or perceived conflicts that could affect their decision-making ability and avoid situations that could lead to real or perceived conflicts of interest. To ensure that board members act consistently and appropriately in handling real or perceived conflicts, the Board should develop a system to identify and help prevent conflicts of interest and promote ethical behavior. Such a system should include a code of conduct for board members that includes conflict-of-interest policies. The Department should also ensure that the code of conduct and relevant statutes are covered in the orientation provided to new board members and provide periodic refreshers to the entire Board on a routine basis. The University of Colorado Board of Regents has developed policies the State Board could use as guidance. These policies include:

- Requiring Regents to disclose to the Board of Regents on an annual basis any financial or personal interests that may create an actual or potential conflict of interest and to update the disclosures as new interests appear.
- Prohibiting Regents from receiving any monetary payment from the University, other than reimbursement of authorized expenses, without prior approval of the Board of Regents.
- A description of activities that would *not* be considered a conflict, activities that have the *potential* for conflicts, and activities that *are* conflicts of interest.

Recommendation No. 7:

The Department of Education should work with the State Board of Education to strengthen safeguards for preventing conflicts of interest by:

- a. Developing and implementing a formal code of conduct that includes conflict-of-interest policies requiring annual disclosure of real and potential conflicts of interest. The code should also provide guidance on what constitutes a conflict of interest and when board members must recuse themselves from discussion and voting on items.
- b. Including the code of conduct recommended in part “a” above, along with applicable statutes in the orientation provided to new board members and offering refreshers to current board members on a periodic basis.

Department of Education Response:

Disagree. The Department disagrees that a formal written code of conduct is needed. The State Board Office includes the code of conduct found in Article 18 of Title 24, C.R.S., in Board members' orientation packets. The Board also engages in regular dialogue with its attorney regarding real or perceived conflicts of interest. Therefore, the Department sees no reason to change these practices, but will continue to seek new ways to strengthen safeguards for preventing conflicts of interest.

Oversight of Online Schools

Chapter 2

Our audit identified serious concerns about the oversight of online education by the Department of Education (Department). In addition to weaknesses in the accreditation process and lack of rules and policies related to some aspects of online education discussed in Chapter 1, we found other indicators that the Department's oversight of online education is inadequate. In particular, one of the online schools we reviewed during the audit, Hope Online Learning Academy Co-Op (Hope Academy), had significant problems in numerous areas that illustrate the risks of having inadequate standards for online education and weak oversight of online schools. Ultimately, lack of sufficient standards and oversight can result in online students not receiving a quality education as well as a lack of accountability for expenditure of taxpayer money. We discuss the problems we found with Hope Academy in this chapter.

In July 2005 the Vilas RE-5 school district (Vilas) executed a charter school contract with Hope Academy. Vilas is located in Baca County in southeastern Colorado; however, Hope Academy is headquartered in the Denver area. During its first school year of operation (2005-2006), the school enrolled about 1,500 students. Hope Academy contracts with private schools and community organizations (collectively referred to as learning centers) to provide space where students can access the Hope Academy curriculum and to provide mentors who monitor the students, respond to students' questions, and provide day-to-day instruction and assistance. In the 2005-2006 school year, there were 40 learning centers located in a variety of facilities including:

- 18 learning centers (45 percent) that were start-up organizations designed specifically to be online learning centers. Of these, 7 were affiliated with religious organizations.
- 14 learning centers (35 percent) that were in preexisting private religious schools.
- 8 learning centers (20 percent) that were in preexisting private secular schools.

In Fiscal Year 2006 Vilas received about \$7.75 million in Per Pupil Revenue (PPR) under the Public School Finance Act for about 1,500 Hope Academy students. The

table below shows how the funds were distributed among Vilas, Hope Academy, and the learning centers, and the services each provided.

Colorado Department of Education Allocation of Hope Academy PPR for Fiscal Year 2006			
Entity	Amount	Percent	Services Provided
Vilas School District	\$2,170,000	28%	Curriculum, Technical Support, Special Education Services
Hope Academy	\$850,000	11%	Teachers, Computers, Marketing, Administration, Training
Learning Centers*	\$4,730,000	61%	Facilities, Mentors
Total	\$7,750,000	100%	
Source: Office of the State Auditor analysis of data from Hope Academy.			
* Hope Academy paid each learning center \$3,475 per enrolled student in Fiscal Year 2006.			

Hope Academy is the fastest-growing online school in Colorado. Hope Academy's student enrollment has increased to about 3,800 students, representing almost 42 percent of the total student enrollment in online K-12 schools, in 2006-2007. According to the Department, Vilas will receive about \$20.5 million in PPR in 2006-2007 for Hope Academy students. Hope Academy's website indicates that the school has contracts with 81 learning centers in the 2006-2007 school year.

In reviewing the operations of Hope Academy, we found significant problems that demonstrate an absence of oversight by the Department, the school district, and Hope Academy itself. We identified concerns with public funds being used to pay for private school classes, inadequate teacher-student interaction, potentially unsafe conditions in the learning centers, and inadequate documentation to show that Hope Academy students were eligible for public funding. These issues are described in detail in the following sections.

Public Versus Private Education

We visited a sample of seven learning centers: five in preexisting private schools (two were secular and three were faith-based) and two start-up entities (one started by a secular community organization and the other by a church) and found a high risk of public funds being used to support private, and in some cases religious, schools, as discussed below.

Public school students taking primarily private school classes. According to information from the learning centers and from our own observations, most Hope Academy students at two of the five private-school learning centers we visited generally spend only about two hours each day using the online curriculum and at

least half their day in private school classes. These two schools received a total of about \$327,000 in public funding during the 2005-2006 school year. Hope Academy stated that its students are allowed to participate in private school courses as an optional supplement to the online curriculum. However, according to one learning center's daily student schedule, Hope Academy gave approval for 15 of the 23 students (65 percent) to spend two hours or less each day using the Hope Academy online curriculum. Furthermore, we spoke with three parents whose children attended learning centers located in private schools during the 2005-2006 school year and were told that private school classes were automatically built into the students' schedules and included core classes such as math, reading, and science. One of the parents reported that although her child preferred working on the Hope Academy online curriculum, the learning center required the student to attend the private school classes. We identified similar issues during the 2006-2007 school year. Department staff who visited one of the learning centers in September 2006 had concerns that students were spending the majority of their time in private school classes and only about 90 minutes each day using the Hope Academy online curriculum. Additionally, one parent whose child began attending a learning center located in a private school in 2006-2007 provided documentation demonstrating that her child worked online for a total of about five hours over a five-week period.

Public PPR funding for all kindergartners and first graders in one private school. We found that one of the private schools that contracted with Hope Academy to serve as a learning center enrolled all of its kindergartners and first graders in Hope Academy during the 2005-2006 school year. In other words, although there were no kindergartners or first graders enrolled in the private school, 43 kindergartners and first graders took classes in the private school building and were funded with public monies in 2005-2006 because they were all enrolled in Hope Academy. This situation is problematic for two reasons. First, this is one of the two private schools discussed above where students spent less than half their day using the Hope Academy online curriculum. As a result, public funds are paying for these kindergartners and first graders to receive an education that consists largely of private courses. Second, by enrolling all kindergartners and first graders in Hope Academy, this private school has established a situation in which all of its students could ultimately be funded at public expense while essentially receiving a primarily private education. Under statute, school districts (and schools) may not receive online PPR funds for a student who previously attended a private school. Due to this statutory restriction, this private school could not receive PPR funds for any of its second through twelfth graders in 2005-2006, even if they were Hope Academy students that year, because they had previously been private school students. However, the school was able to receive public PPR monies for all of its kindergartners and first graders because, under state law, all of them are treated as entering the Colorado educational system for the first time (kindergarten is not compulsory in Colorado, so first graders are considered to be entering the educational system for the first time). Furthermore, by enrolling all its

kindergartners and first graders in Hope Academy, the private school has made these students potentially eligible for public funding for the next seven to eight years as they progress through the elementary and secondary grades. If the school had simply enrolled its kindergartners and first graders in the private school, and not in Hope Academy, none of these students would have been eligible to be funded with public monies in either 2005-2006, or in the following year, since they would originally have been private school students.

Commingling of public and private education funds. We found that the same private religious school discussed in the previous two paragraphs commingled the PPR funds it received as a learning center with private-school tuition. This private school received about \$250,000 in public funds from Hope Academy for the 2005-2006 school year. As a result of the school's commingling public funds with other funds used to pay for the school's operations (teachers, supplies, and facility), it is not possible to track whether public funds were used only to support the provision of the online curriculum and not to fund private education expenses. The Colorado Constitution prohibits a school district from using public funds to aid any church or sectarian society or to help support any school controlled by a church or sectarian denomination.

Public school student exposure to religious materials in school. Hope Academy students who attend learning centers housed in faith-based private schools may be exposed to religious images and doctrine during the regular course of their school days. Although all the centers we visited complied with Hope Academy contract provisions requiring that computer labs be free of religious images and writing, three learning centers had religious decorations and inscriptions on the walls of common areas such as hallways. Further, student handbooks for three of the learning centers we visited contained religious material and were provided to the Hope Academy students. In addition, according to staff at one learning center, students are automatically enrolled in a religious class unless they formally request to opt out. Department staff also expressed concerns that public school students were being exposed to religious materials at the learning centers.

Overall, the concern that public funds may be used to support private education is intensified by the fact that learning centers distributed fliers before the beginning of the 2005-2006 school year stating that "your child has been pre-selected for full scholarship" to attend a charter program. One learning center advertised itself as "a tuition-free private school." These fliers did not clearly state that the child would be attending a public school. Moreover, one parent we contacted whose child was enrolled in a Hope Academy learning center during the 2005-2006 school year believed that she had enrolled her child in a private school with a scholarship and was not aware that she had enrolled her child in a public charter school. Another parent who enrolled her child in Hope Academy in 2006-2007 told us that the director of the learning center described the facility as a publicly-funded private

school and did not explain that the center was a public school operated by Hope Academy and chartered by the Vilas school district.

Teacher and Mentor Qualifications

Hope Academy's charter agreement requires all of its teachers to be highly qualified under the federal No Child Left Behind (NCLB) Act. In the 2005-2006 school year, Hope Academy had between three and four licensed teachers overseeing 165 mentors and about 1,500 elementary and high school students at any one time. The students were enrolled in courses covering at least four district-required core subject areas. We reviewed the credentials of these teachers and found that, collectively, they were not licensed or highly qualified in all of the core subjects and for all grade levels offered by the school. Specifically:

- There were no teachers licensed or highly qualified providing instruction in secondary science or social studies throughout the entire 2005-2006 school year.
- There were no licensed or highly qualified elementary teachers employed by the school from the beginning of the school year until November 2005.
- There were no licensed or highly qualified secondary language arts teachers employed by the school from December 2005 through the end of the school year.

We also found that teachers were overseeing students' work in subject areas in which they were not highly qualified. For example, two elementary teachers were responsible for secondary students, and one teacher licensed in physical education and highly qualified in math oversaw students taking English, science, and social studies courses. This raises significant concerns regarding whether a single teacher can effectively oversee educational courses in multiple core subject areas for as many as 500 students representing all ages and grade levels. Hope Academy reports that it has 17 teachers to oversee the approximately 3,800 students enrolled in its program for the 2006-2007 school year. These teachers were added after the conclusion of our fieldwork and therefore we did not verify their qualifications.

According to Hope Academy, a small number of teachers is sufficient to oversee online courses because the online curriculum guides the students through their coursework while the mentors at the learning centers, who are considered to be paraprofessionals, provide day-to-day assistance and instruction, assign work, and grade assignments. Although no state standards exist for paraprofessionals, NCLB stipulates that paraprofessionals may tutor students one-on-one and provide assistance in a classroom or computer lab but only under the direct supervision of a

highly qualified teacher. Direct supervision, according to federal regulation, means that the teacher plans the instructional activities, evaluates the achievement of the students, and works in close and frequent physical proximity with the paraprofessional. In the absence of any guidance from the State Board and Department as to the role of teachers in the online environment, NCLB standards provide useful guidance for the school's practices.

In 2005-2006 Hope Academy's mentors did not work in close and frequent physical proximity with a highly qualified teacher. The mentors had minimal contact with their assigned teachers, who typically visited each learning center for two to four hours once a week. Also, Hope Academy mentors graded a portion of the students' work. In addition, the Hope Academy website states that "many student assessments are taken online, but mentors play an important role in day-to-day support." There is no mention of its teachers playing any role in grading students' work. These practices deviate from the NCLB standards requiring paraprofessionals to work in close and frequent proximity with highly qualified teachers and prohibiting paraprofessionals from evaluating student achievement.

Our analysis of CSAP scores, discussed in Chapter 1, revealed that Hope Academy students had the lowest performance on the CSAP exams of all students in our sample of 12 online schools. Further, Hope Academy students performed worse, on average, on the 2006 CSAP exams than they did when they attended other public schools in prior years. The lack of qualified teachers, minimal mentor to teacher contact, and the high student-to-teacher ratio may explain, in part, the poor performance of Hope Academy students.

Student Safety

We reviewed Hope Academy's policies and procedures for ensuring the safety and security of students in the learning centers. We identified three areas of weakness in the policies and procedures that may put students at risk, as described below.

Criminal History Checks of Hope Academy and Learning Center Staff. The charter school agreement between the Vilas school district and Hope Academy requires that all staff employed by the online school undergo a fingerprint-based criminal history check. The school year 2005-2006 and 2006-2007 contracts between Hope Academy and each of the learning centers required all learning center employees to also undergo a fingerprint-based check. To make hiring decisions, Hope Academy and the learning centers use the criminal history guidance set forth in statute for denying, suspending, or revoking teachers' licenses. According to statute [Section 22-60.5-107(2.5)(a), C.R.S.], a criminal record including sex crimes, violent crimes, domestic abuse, and crimes against minors are automatic grounds for denial, suspension, or revocation of a teacher license. We reviewed the criminal

history checks for mentors at our sample of seven learning centers and found significant problems.

First, Hope Academy did not verify that the mentors, who have daily contact with students, had in fact undergone fingerprint-based criminal history checks prior to the opening of the school. As a result, Hope Academy could not verify that the mentors did not have any violations that should have prevented their hiring. After we inquired about the criminal history checks, Hope Academy ran name-based checks in April 2006, about eight months into the 2005-2006 school year, on all but one of the mentors (the learning center refused to provide this mentor's date of birth and social security number to Hope Academy). We contacted the Colorado Bureau of Investigation (CBI) to determine if name- or fingerprint-based background checks had been conducted for this mentor as well as for mentors who were employed during the 2005-2006 school year at our sample of seven learning centers. CBI had no record of fingerprint criminal history checks for 11 of the 41 mentors (27 percent) we inquired about. Of the 30 that did have criminal history checks, 7 were checked through CBI but not FBI records, even though the agreements between Hope Academy and the learning centers required mentors to undergo both state and federal checks. We found 24 checks were conducted during the 2005-2006 school year (including 14 that were conducted on April 26, 2006), another 5 were conducted prior to the opening of Hope Academy, and 1 was conducted in August 2006. Using the Department's teacher licensing standards, none of the checks returned violations that would have prevented the individuals from working with students. In mid-November 2006, Hope Academy reported that it was still waiting for the results of the fingerprint-based criminal history checks conducted on the 2006-2007 learning center employees—almost three months into the current school year.

Second, in the 2005-2006 school year, Hope Academy did not require background checks to be conducted on other facility staff with whom the students may be in contact, such as teachers, administrators, and other personnel at the private schools where some of the learning centers were located. Because of the incomplete background check requirements and processes in place at Hope Academy, there is an increased risk of harm to students enrolled in the school.

Fire Inspections of Learning Centers. The charter contract states that Hope Academy is responsible for ensuring that all necessary certificates and permissions for facilities are in place at each learning center. However, we found that there was insufficient documentation that the school and district verified that all safety requirements were being met by the learning centers. Specifically, Hope Academy did not have fire inspection reports for three of the seven learning centers in our sample at the time of our request in August 2006. In November 2006, Hope Academy provided the three missing inspection reports, but we noted problems with two of them. One inspection was not conducted by the city fire department, and the other inspection was for the church in which the learning center was located instead

of for the room that housed the students. Additionally, the latter report was dated March 2005. According to the Denver Fire Department, buildings should be inspected by a city fire department on an annual basis, and there should be a separate inspection of the learning center space. Further, we have no assurance that Hope Academy reviewed these reports before the learning centers opened. We visited one learning center located in the basement of a former high school. The basement room had only one door and the windows were high in the walls, raising concerns about whether students would be able to evacuate the room in case of an emergency. This is one of the learning centers for which Hope Academy was unable to provide the inspection report until November 2006 and which has not been inspected since March 2005—almost two years ago.

Internet Security. We reviewed the computer security policies and procedures established by Hope Academy and in place at the seven learning centers we visited. We found that Hope Academy did not have formal policies for computer security such as for passwords and user identification. In addition, we found inadequate Internet access controls at one learning center. Without adequate controls students may access inappropriate content.

Student Files

The Department requires that districts and schools maintain sufficient documentation to ensure that only eligible students are funded. The Department requires online schools to maintain emails between students and teachers, homework assignments showing date of transmission, or fax messages during the October pupil count period as evidence of student enrollment. In addition, online schools must have documentation such as report cards showing that the student was enrolled in a public school the prior year or was entering school for the first time (e.g., kindergartners and first graders). The school must have an academic calendar and course schedules for all students that would allow the Department to determine if the student was full- or part-time. In addition, statutes require that schools maintain certain documents in student files including immunization records, information on learning disabilities, and assessment results.

In March 2006 we contacted Hope Academy to schedule a review of student files as part of our audit test work. Hope Academy indicated it would need most of the summer to gather information from the learning centers and to organize student files for our review. On August 3, 2006, we requested a sample of 50 files for students who were enrolled in Hope Academy during the October 2005 count period. At the time of our request, 10 months after the October 2005 pupil count, the school was unable to provide six of the files (12 percent). Of the 44 files we initially reviewed, 4 were faxed to Hope Academy's headquarters by learning centers on the day of our

review. This indicates that Hope Academy only had 40 of the 44 files in advance of our review.

All of the 44 files we reviewed were missing some documents required by state law, the charter school contract, or the Department. Specifically:

- None of the 44 files contained student class schedules or school calendars to document whether the students were full- or part-time. Additionally, none of the 44 files contained prior year report cards or assessment results (such as CSAP scores) as required by statute.
- 36 of the 44 files (82 percent) did not contain immunization records as required by statute.
- 31 of the 44 files (70 percent) had no documentation of any kind to show that the student was in attendance at the online school during the pupil count period. Of the 13 files that did contain evidence that students were in attendance during the pupil count, 11 had no documentation that the student participated in an online course; only offline work such as workbooks was available. Further, the dates on 2 of the workbooks were changed from dates outside the count window to dates inside the count window. The date on another workbook was in handwriting that was clearly different from the student's. These anomalies raise questions whether the work provided as evidence of student attendance was actually completed by students during the October count window.
- 32 of the 44 files (73 percent) had no transcripts or other documentation showing that the students were attending public schools during the prior school year and thus were eligible for public funding.
- 2 of the 44 files were for students who had learning disabilities documented in school records. However, there was no evidence in the files that Hope Academy or Vilas assessed the needs of the students, created Individualized Education Programs (IEPs), or provided specialized services. The federal Individuals with Disabilities Education Act and the Colorado Exceptional Children's Education Act [Section 22-20-101, C.R.S.] require schools to assess the disabilities of all students who request an assessment and create IEPs to direct expertise and resources in a way that best addresses any learning disabilities.

Subsequent to our August 3, 2006, review, Hope Academy provided student schedules for all 50 students in our sample. Vilas requires all K-8 students to take courses in math, language arts, science, social studies, reading, and physical education. Out of our sample of 50 student files, there were 30 K-8 students. On the

basis of the students' schedules, we found 6 of the 30 (20 percent) did not take courses in science and social studies and 26 (87 percent) did not take physical education.

We received Hope Academy's final submission of documentation on November 14, 2006. Even with this additional information, we found none of the files contained all the required documents related to funding eligibility, attendance, immunizations, or student assessments. Furthermore, because Hope did not provide the files for our review until five months after we requested access to student records, we question the reliability of the information in the files. We have no assurance that Hope Academy had the required pupil documentation in its possession at the time we first requested access. As a result, we question whether any of the 50 students in our sample were eligible for State PPR funding. We have provided the Department with details about the missing documentation.

Finally, we found that the Department allocated \$725,000 to Vilas for about 825 at-risk students enrolled in Hope Academy (54 percent of total Hope Academy enrollment for the 2005-2006 school year), but Hope Academy has no documentation of the at-risk status of any of these students. As part of the PPR funding formula, districts may receive additional funds for at-risk students. Under statute [Section 22-54-103(1.5), C.R.S.], students are considered to be at-risk if they qualify for a free lunch under the federal Free and Reduced Meal program or if their dominant language is not English. Districts must document a student's at-risk status in the student files. According to Hope Academy, it did not maintain documentation of the at-risk status of the 825 students, and none of the 50 files we reviewed contained evidence that the students were at-risk.

Department, District, and School Responsibilities

Our review identified serious problems with the operations and oversight of Hope Academy and its learning centers. These problems demonstrate an absence of accountability and oversight by the Department, the school district, and the school, as discussed below.

The Department did not hold Vilas school district accountable. As previously described, the Department did not effectively use the accreditation process to hold Vilas responsible for correcting problems over three years (the 2002-2003 through 2004-2005 school years) when Vilas consistently failed to meet accreditation indicators. The Department did not place Vilas on probation in school year 2003-2004 or revoke its accreditation when it could have done so in 2004-2005, despite documented academic achievement problems that the Department attributed to the district's existing online school (Vilas Online) and the lack of a school accreditation process. As a result, Vilas was able to establish a second online school, Hope

Academy, effective in July 2005. Vilas received funding for about 1,500 Hope Academy students in the 2005-2006 school year and an estimated 3,800 students in the 2006-2007 school year. At a minimum, the Department should have ensured that Vilas addressed all online-related concerns cited in the accreditation reports and developed a Department-approved school accreditation and quality assurance plan before Vilas approved Hope Academy's charter application. Further, as we discuss later in the chapter, the Department received numerous complaints about Hope Academy during the 2005-2006 school year but did not take any steps to resolve them.

Vilas school district did not adequately monitor Hope Academy. We noted numerous shortcomings in Vilas' planning for and oversight of Hope Academy. First, Vilas did not implement standards for Hope Academy in numerous areas discussed throughout this chapter including (1) the amount of time students were required to spend online, (2) the amount of time students could participate in private school classes, (3) qualifications of mentors, (4) acceptable student-to-teacher ratios, and (5) appropriate use of PPR funds by the learning centers. Second, Vilas took virtually no action to monitor the activities of Hope Academy. Vilas staff report that they conducted site visits for only about half of the 40 learning centers in the 2005-2006 school year. The visits were not documented, making it impossible to determine their scope and depth. Further, at the time the visits were conducted, the district had no site assessment plan or criteria to evaluate the centers or the quality of education being provided. Third, Vilas did not ensure that Hope Academy complied with the requirements of its charter, including determining that teachers were highly qualified, student files were complete, or learning centers were safe.

Hope Academy did not adequately oversee its learning centers. We found problems with the school year 2005-2006 contracts between Hope Academy and the learning centers as well as with the school's ongoing oversight of learning center operations.

First, we found that the 2005-2006 contracts between Hope Academy and the learning centers were missing key elements to ensure online accountability for funds spent. One of these elements was a clause that detailed how Hope Academy would monitor the contract and the learning centers. Hope Academy realized the risks of this omission when it asked the learning centers for their financial records and the learning centers refused to provide the information. We also found that the contracts contained no mention of the funds Hope Academy agreed to pay the learning centers or the services the learning centers were to provide in return. Additionally, the 2005-2006 school year contracts provided no direction on how the learning centers should use the funds or how much time students could spend in private school classes. The 2006-2007 contracts address some but not all of these issues. For example, the 2006-2007 contracts state the amount each learning center will be paid for each student

enrolled at that learning center but do not state that Hope Academy has access to the financial records.

Second, Hope Academy did not adequately monitor the learning centers' compliance with contract requirements such as background checks. In addition, Hope Academy did not develop a monitoring guideline for the teachers to use during their learning center site visits until the second semester of the 2005-2006 school year. Furthermore, the documentation for site visits conducted by teachers was insufficient to determine if teachers were ensuring that learning centers met state, district, and contractual requirements. As a result, we were unable to evaluate whether teacher monitoring of learning centers was sufficient.

Overall, we found poor management and oversight of Hope Academy at all levels, which may have contributed to poor student performance. Further, these problems raise questions as to whether the PPR funds paid to Vilas for Hope Academy students were, in fact, based on actual students attending the school. This issue is discussed in more detail in Chapter 3. We believe the Department needs to strengthen its oversight of school districts that establish online schools by following the progressive disciplinary process set forth in the accreditation process. The Department should place Vilas on accreditation probation and closely monitor the district to ensure that the Vilas school district and Hope Academy comply with requirements set by statute, regulation, and contract provisions such as safety, course requirements, and student documentation. If Vilas does not correct all accreditation problems, the Department should revoke Vilas' accreditation in one year as permitted under State Board rules. Vilas and Hope Academy should take immediate steps to ensure that the school is operating in a legal and safe manner, that all funded students exist and are eligible for funding, and that it provides an adequate number of qualified teachers to provide a quality education to Hope Academy students.

In addition, the Department should expand its school district accreditation system for districts with online programs. The accreditation criteria and processes should ensure that (1) public education funds are not used for private or religious education; (2) school districts comply with requirements set by statute and regulation related to student safety, required courses, and student documentation; (3) school districts follow standards for online teachers as discussed in Recommendation Number 4; and (4) school districts establish adequate procedures to monitor their schools. These procedures should include requiring schools to use contracts for goods and services that contain provisions stipulating:

- How the school will monitor the performance of the contractor.
- What information the contractor is required to provide to the school.
- How the school or contractor can terminate the contract.

- The source and amount of funds to be provided to the contractor and any restrictions on how the funds may be used.
- The specific services the contractor will provide in return for the funds provided.
- Requirements to maintain documentation supporting how contract funds were spent.
- Allowing state access to records.

Recommendation No. 8:

The Department of Education should improve oversight and monitoring of school districts through the accreditation process. As part of the annual accreditation review of school districts with online schools the Department should enhance its procedures to ensure that:

- a. Public education monies are not used to fund private or religious education.
- b. School districts comply with requirements set forth in statute and regulation regarding safety standards, course requirements, and student documentation.
- c. School districts follow standards for online teachers as discussed in Recommendation No. 4.
- d. School districts have adequate procedures to monitor their schools that include requiring schools to use contracts for goods and services that contain provisions for the school to monitor the contractor's performance; for either party to terminate the contract; specifying the source and amount of funds provided under the contract; detailing the services the contractor will provide; and explaining any restrictions on how the funds provided by the school may be used by the contractor.

Department of Education Response:

Partially Agree. Implementation date: Unknown pending direction and resources from the General Assembly.

The Department disagrees that it should enhance its accreditation procedures as recommended, unless directed by the General Assembly.

- a. Disagree. The current accreditation process already addresses the issue of using public funds for religious education by asking each school district if it complies with all applicable laws and regulations. School districts currently have the ability to contract for educational services from private providers, including private schools.
- b. Disagree. The current accreditation process requires school districts to comply with state and federal statutes, as noted in the response to part “a” of the recommendation.
- c. Disagree, as noted in the response to Recommendation No. 4.
- d. Agree. The Department agrees that it could implement tighter standards and more direct oversight of online schools if directed by the General Assembly. The Department would require additional staff for implementation.

Auditor Addendum

Statutes state that the purpose of the accreditation process is to foster accountability and improve public schools. The Department’s failure to ensure appropriate use of state funds and provisions of adequate educational services undermines the basic intent of accreditation and allows the violation of state laws to continue.

Recommendation No. 9:

The Department of Education should place Vilas school district on accreditation probation and closely monitor the district to ensure that both the district and Hope Academy comply with requirements set in statute and regulation including requirements for student safety, course requirements, and student documentation. If Vilas does not correct all accreditation problems, the Department should revoke Vilas’ accreditation in one year as permitted by State Board rules.

Department of Education Response:

Agree. Implementation date: December 2006. Discussions began with the district this fall to place the Vilas school district on accreditation probation.

Legal Issues

During the 2005-2006 school year, all of Hope Academy's learning centers were located in Front Range school districts such as Denver Public Schools, Jefferson County, and Adams (County) 14. None were located within the boundaries of the Vilas school district. By operating learning centers outside of its chartering district, Hope Academy may be violating state statute [Section 22-32-109(2), C.R.S.], which requires "Any board [of education] conducting a complete educational program outside the territorial limits of the district . . . [to] obtain the written consent of the board of the school district in which said educational program is to be conducted prior to establishing said educational program." Neither Vilas nor Hope Academy has sought consent from the districts in which the learning centers are located, claiming that the learning centers do not offer a complete educational program. However, Hope Academy makes all courses required by Vilas for each grade available to all students.

Neither statute nor State Board rules define the term "complete educational program." Although the Department has been aware that a number of school districts are concerned about Hope Academy opening learning centers within their boundaries, the Department has not taken any action to determine whether Hope is operating in a legal and appropriate manner. Specifically, five school districts contacted the Department during the 2005-2006 school year for guidance regarding Hope Academy's establishment of learning centers, but the Department considers the issue to be a local concern and has referred the school districts to Vilas.

Online schools established by any school district have the potential to affect students across the State, and as we discuss in Chapter 3, there is a financial impact to the State when students go outside their district of residence to attend online schools managed by rural school districts. Therefore, the Department should take steps to define the term "complete educational program" either in State Board rules or statute. In addition, the Department should establish rules that clearly define what circumstances, if any, permit one school district to establish schools or other learning facilities within the boundaries of another district.

We also found that the term "learning center" is not defined in statute and it is unclear if statutes that establish requirements for schools or child care facilities should apply to learning centers. Learning centers, like schools and child care facilities, supervise a number of unrelated children in a facility together; however, unlike schools and child care centers there are no statutory facility safety requirements for learning centers. To ensure children in learning centers or other facilities that are not schools or child care facilities are in a safe environment the Department should work with the General Assembly to determine the safety requirements these facilities must meet.

Recommendation No. 10:

The Department of Education should define the term “complete educational program” in State Board rules or work with the General Assembly to develop a statutory definition. The Department should also establish rules that clearly define what circumstances permit one school district to establish schools or other learning facilities within the boundaries of another district. Furthermore, the Department should work with the General Assembly to determine the safety requirements that should apply to facilities, such as learning centers, that may not meet the definition of either a school or a child care facility.

Department of Education Response:

Agree. Implementation date: 2007 Legislative Session. The Department agrees that it will work with the General Assembly to develop a statutory definition of “complete educational program” and to determine what circumstances permit one school district to establish schools or other learning facilities or opportunities within the boundaries of another district, including under what circumstances a school district can contract for services within the boundaries of another school district. The Department also agrees to work with the General Assembly to define the term “learning center” to clarify the safety requirements that should apply to them.

Complaints

We found that the Department does not have a process to track and handle complaints. The Department reports it received an unusually high number of complaints about Hope Academy during the 2005-2006 school year, averaging about five per month. The complaints from parents cited concerns at some learning centers such as delays in getting computers for students, lack of proper student supervision, poor education quality, truancy, and whether Hope Academy was accredited (as noted in Chapter 1, Vilas had no school accreditation process to accredit Hope Academy or any other school). The Department did not directly address any of the complaints or questions but instead referred callers to Vilas and to the Office of the State Auditor. Further, the Department did not log the complaints, ensure they were resolved, or determine if the Department should take action regarding any of them. In addition, as noted earlier, the Department did not address concerns from five school districts regarding the legality of learning centers operating outside the boundaries of the chartering district. The Department believes that due to issues of local control, it is the responsibility of the districts to resolve all these complaints.

While districts do have a responsibility to handle complaints within their control, the Department has a duty to oversee the K-12 education system as a whole. This should include handling complaints that have policy implications or affect multiple parts of the education system. Further, this should include methods for tracking complaints to ensure they are correctly routed and ultimately addressed.

We identified another state department that has developed a process for handling complaints at both the state and local levels. The Colorado Department of Human Services (Human Services) oversees child welfare services at state, county, and provider levels. Human Services accepts complaint calls related to child welfare, refers the complaints to appropriate personnel at Human Services and/or the counties, ensures that those receiving the referrals address the complaint, and tracks the number of complaints received. Counties have 20 business days to respond to Human Services about each complaint, and Human Services will follow-up with counties if they miss the due date. We identified a department of education in another state (Pennsylvania) that also has recently established a procedure for receiving and addressing complaints from parents within the division that oversees online charter schools. The Colorado Department of Education should institute a similar system to log, route, and resolve complaints. The Department should also use complaint information as a performance indicator for the accreditation process and as a way to identify issues that may warrant changes to statute or regulation.

Recommendation No. 11:

The Department should develop a system to log, route, monitor, and resolve complaints. The Department should also use complaint data in its accreditation process as a quality indicator and as a means to identify needed changes in statute or regulation.

Department of Education Response:

Disagree. Complaints are monitored and resolved when the Department has jurisdiction. Most complaints are about issues which can only be addressed by a local board of education.

Auditor Addendum

The Department could provide no evidence of an established system to manage complaints, including a standardized process to forward complaints to school districts.

Oversight of Online Education Funding

Chapter 3

The Department of Education (Department) uses data provided by school districts from the October 1 pupil count to determine how much Per Pupil Revenue (PPR) funding each school is eligible to receive. School districts maintain documentation of student attendance during the pupil count, and the Department audits the documentation. If districts do not have sufficient documentation to support their reported attendance data, the Department requests that the district repay any overfunding. Conversely, if the Department determines a school district underreported the number of students, the Department pays the school district for those students. In Fiscal Year 2006 the Department was allocated about \$4.6 billion to districts throughout the State under the Public School Finance Act, including the local share. About \$32.8 million of this amount was for students enrolled in online schools.

We reviewed the funding of online schools and the Department's processes for auditing the pupil counts of school districts that operate online schools. We identified concerns with the effect of online school funding on the State's costs for K-12 education and weaknesses in the Department's audit processes. These issues are discussed in detail in this chapter.

State Share of Funding for Online Schools

PPR funding for K-12 public education consists of a State Share and a Local Share provided through state and local taxes, respectively. Although online schools typically receive a lower total PPR than brick-and-mortar schools because they are statutorily funded at the minimum PPR, online schools typically receive a higher State Share of PPR funding than their brick-and-mortar counterparts. The higher State Share occurs because many of the larger online schools are currently based in rural districts that have a small tax base and lower local tax revenues and thus receive a larger State Share of education funding. At the same time, many of the students who attend online schools are from urban districts with a larger tax base and higher local tax revenues. These districts typically provide a larger share of total PPR funding through their local taxes and, therefore, receive a smaller State Share.

In school year 2005-2006, online schools established by rural school districts enrolled a total of about 3,300 students. About 2,100 of these students (64 percent) resided in urban areas. When students from a school district with a lower State Share enroll in an online school based in a district with a higher State Share the State pays more to educate those students, even though online students are funded at the minimum PPR rate. Conversely, the State pays a lower amount for online schools based in districts with a lower State Share. For Fiscal Year 2006 the Department determined that the State would have saved at least \$6.7 million in State Share funding if all online students attended schools within their district of residence. This is because, in most cases, the student's district of residence has a higher Local Share and a lower State Share of education funding.

Because students from any school district can easily enroll in an online school in any other district, it is difficult for the State to accurately predict its K-12 education costs. Over the past three years, the number of students in online schools has increased more than 80 percent, from about 3,400 students in Fiscal Year 2004 to almost 6,200 students in Fiscal Year 2006. Much of this increase is caused by students from large Front Range school districts enrolling in online schools that were established by small, rural districts such as Vilas and Branson. For example, Hope Academy, which is based in the small rural Vilas school district, accounts for more than half of this increase, opening in 2005-2006 with over 1,500 enrolled students, primarily from large urban school districts. Anticipating this type of growth complicates the State's budgeting for education funds. In addition, the local districts that lose students to online schools outside the district may lose local tax revenues.

We identified other methods for funding online education, which provide options that Colorado could consider to manage the costs associated with online schools. Although some of the funding approaches would not reduce the State Share of funding for online schools, they could help reduce or stabilize total PPR for online schools and improve the Department's ability to budget education monies. The alternative funding methods we identified are:

- **Additional pupil count periods.** Several states we contacted use multiple student counts or track Average Daily Membership (ADM) of students to help manage funding. For example, Nevada has an additional count period in January for online students and both Pennsylvania and Ohio use ADM as a basis for funding but do not have multiple count dates. The goal of these methods is to accurately reflect the growth and attrition that is common to online schools, as described in Chapter 1. The benefit of having additional pupil count periods is that online schools that continue to grow throughout the school year would receive funding that reflects that growth while online schools with high attrition rates would not be over-funded.

- **Inter-district exchanges.** Three of the eight states we surveyed (Minnesota, Nevada, and Pennsylvania) transfer a portion of the per pupil amount to the student's home district. In Minnesota, online students receive the same amount as brick-and-mortar students, but the home district keeps 12 percent to pay for fixed costs in the home district and transfers the remaining 88 percent to the online school. The benefit of this type of model is that the impact on the home district and the state is minimized.
- **Grant program.** Instead of funding online schools that accept students from around the State through PPR, funding could be provided through a grant program. The Department could set criteria in areas such as CSAP performance and student-teacher interaction that online schools must meet to be eligible for funding. A grant program could increase the Department's oversight while allowing for easier budgeting for statewide online schools.
- **Course completions.** Florida's primary online program is not a full-time school but provides supplemental courses to students in grades 6-12 and uses a unique funding approach. Florida pays online schools only for course completions, not for attendance, meaning the Florida Virtual School only receives funds for courses that the students actually complete. This is a very different model from Colorado and the other states we surveyed. This model has the benefit of increasing accountability from online schools while reducing or eliminating public funding for students who do not complete their courses.
- **Flat rate.** Two states (Nevada and Ohio) fund full-time online students at a standard flat rate that is identical to the rate for brick-and-mortar students. For example, in Fiscal Year 2007 Ohio will pay \$5,403 and Nevada will pay \$5,000 per student for K-12 education, regardless of whether the student is in an online or a brick-and-mortar school and regardless of what school district the student attends. The benefit of this type of model is that the State can more easily budget for online education, since its share does not change.

The Department should evaluate the current methodology for funding online education to determine whether changes are needed to minimize the effect of online schools on state and local funding. The Department should consider options such as those discussed above to stabilize the State's costs for online education while ensuring sufficient funding and propose statutory changes, as needed.

Recommendation No. 12:

The Department of Education should evaluate the current methodology for funding online education and explore other options to minimize the effect of online schools on state and local funding. The Department should consider the funding options discussed above and work with the General Assembly to propose statutory changes if needed.

Department of Education Response:

Agree. Implementation date: June 2007. The Department agrees that it will evaluate the current methodology for funding online education and explore other options to minimize the effect of online schools on state and local funding. The Department agrees to work with the General Assembly to propose statutory changes as needed.

Online Funding Allocations

Statute [Section 22-33-104.6, C.R.S.] defines an online education program as a “program that provides a sequential program of instruction for the education of a child who resides in Colorado through services accessible on the world wide web. . . .” A school district receives public funding each year only for online students who were in attendance during that school year’s October count. In addition, school districts may receive public funds only for those online students who substantially completed at least one semester in a public school during the prior school year or who are entering the educational system for the first time.

To ensure accurate school district funding, the Department conducts audits of school districts to verify the number of students they report in attendance during the pupil count process each October. The Department audits large districts (those with 15,000 or more student FTE) every year and smaller districts every three to five years. We reviewed the Department’s processes for funding school districts with online students and for auditing districts’ pupil counts. We identified irregularities and errors in the Department’s funding of some school districts under the online funding requirements, as described in the following sections.

Public funding for home schooling. We found one school—Cotopaxi Home-School Partnership (Cotopaxi) within the Cotopaxi RE-3 school district—that operates essentially as a home school but received public online funding over the last five school years. Cotopaxi students were instructed by their parents using a variety

of home-school curricula. In Fiscal Years 2004 through 2006 Cotopaxi enrolled about 110 students and received about \$630,000 in online public funding. Since this program is essentially a home-school program, it should not have received any public funding. Department staff indicated that the school was funded under the online category because the school district reported it as online. When the Department audited the school district's pupil count in October 2005, it did not recognize that the school was actually an offline home school.

When we informed the Department that Cotopaxi was actually a home-school program, the Department indicated it would request that the school district repay the State Share of the 2005-2006 PPR funding for this program and require the district to change the program so that it was online. However, the Department stated it would not request repayment of funding from prior years because it had already audited those years and allowed the funding. We believe that since the school was not eligible for public funding in school years 2001-2002 (when the program began) through 2005-2006, the Department should require the district to repay all of the State Share funding for this program. In addition, before providing any future public funding for this school, the Department should ensure that it is no longer a home-school program.

Online funding for offline courses. One school we reviewed—Karval Online (Karval) in the Karval 23 school district—instructs all of its kindergartners at home using an offline distance learning curriculum and is funded as an online school. Karval kindergarten students work from home but are instructed and assessed by a licensed teacher. Karval kindergarten students do not complete their courses online; they use offline materials and mail or fax their completed work to their teacher on a periodic basis. In Fiscal Years 2004 through 2006 Karval enrolled five kindergarten students and received about \$14,000 in online public education funds. The Department indicates that the school district reported these students as online students. The last audit for this district was in May 2002, prior to the establishment of the school. We informed the Department that Karval kindergarten students are not online. The Department is requesting that the school district repay the entire State Share for the kindergartners in this program for all years because the last audit was conducted prior to the establishment of the online program.

Online funding of temporary programs. We identified three school districts (Aspen, Byers, and Westminster) that have, at one time or another over the past three years, established temporary online programs. These programs were developed for students who could not attend a brick-and-mortar school for a limited period of time due to illness or other restrictions. Although these students may spend only a few months in online courses and then return to the brick-and-mortar setting once their temporary restrictions are gone, the Department classifies them as online students

for funding purposes. This is because the Department funds school districts based on whether a student takes more than half of his or her classes online and not whether the student was enrolled in an online program that meets the statutory standards. As a result, the school district receives the lower online PPR for these students, even though they may attend a brick-and-mortar school for part of the school year. It is unclear if these programs meet the statutory intent of an online program, since they are created on a case-by-case basis to deal with individual student needs. If these students had been funded as brick-and-mortar students, their school districts would have received a total of \$5,600 in additional funding, or an average of \$1,000 more per student, in Fiscal Year 2006.

Lack of clear guidance to determine funding eligibility. To be eligible for public online funding, statute states that a student must have “substantially completed” one semester in a public school during the prior school year. We found that neither statute nor State Board rules define the term “substantially completed” for purposes of determining whether online students are eligible for public funding. As a result, the Department has used varying interpretations of the term. In 2004 the Department audited the Adams 12 school district and disallowed about \$400,000 in funding for 74 online students at Colorado Virtual Academy who had not received a grade of D or higher on their first-semester courses the prior year. For purposes of online funding, the Department’s auditors had chosen the standard of a D grade or better to serve as evidence that a student had substantially completed his or her coursework; however, this standard was not formalized through rule or regulation. Adams 12 disputed the disallowance, pointing out that there were no authoritative criteria for the Department’s standard, and the Department ultimately agreed. Currently the Department considers a student to have substantially completed a course if there is evidence that the student finished the coursework, even if he or she received a failing grade. The standard is still not formalized in rule or regulation.

Lack of documentation to support the funded pupil count. In Chapter 2 we discussed findings regarding Hope Academy in the Vilas school district (Vilas). One of the concerns we identified was that Hope Academy had inadequate pupil count documentation to support full-time public funding for all of its students. Based on the lack of documentation, we question whether any of the 50 students whose files we reviewed were eligible for public online funding. The concern with the lack of documentation for funding is magnified by the exponential growth in the student enrollment in Vilas schools. Between school years 2003-2004 and 2005-2006, the total student enrollment in the Vilas school district grew by over 400 percent, from about 390 to about 2,040 students. The school district’s enrollment is projected to more than double in the 2006-2007 school year, to over 4,330 students. Most of the increase is attributable to the establishment of Hope Academy, which enrolled about 1,500 students during the 2005-2006 school year, and estimates an enrollment of about 3,800 students in 2006-2007. The lack of documentation we identified raises

serious questions regarding whether the total amount of state funds provided to Vilas for Hope Academy students was appropriate.

We identified a number of problems that contribute to the irregularities in funding that we found, as follows:

- The Department has not developed written policies to clearly and consistently define an online school for funding purposes. For example, there are no Department policies or State Board rules that stipulate that temporary online programs should be funded at the same rate as permanent online schools.
- The Department has not established written criteria for the type of documentation required to demonstrate that students were in attendance in an online school during the October count. For example, as noted above, the Department sometimes accepts offline work as evidence of attendance in an online course.
- Aside from considering a school district's size and the date of the last audit, the Department does not use a risk-based audit approach. However, some of the problems we found with online schools highlight the need for a comprehensive risk-based approach to scheduling count audits. The Department should consider risk factors such as rapid increases in enrollment and problems identified through other means, such as from complaints or external audits, in planning the audit schedule. We notified the Department about Hope Academy's lack of student documentation as soon as we conducted our review of Hope files in August 2006. We recommended that the Department expedite its count audit of the Vilas school district to ensure the accuracy of the funding provided for Hope Academy. However, the Department indicated that Vilas had last been audited in 2003, was not on the audit schedule for the 2006-2007 school year, and therefore would not be audited until its regularly scheduled time in 2008, three years after Hope Academy began operations. Subsequently, the Department did begin a count audit of the Vilas school district in late October 2006. By failing to consider risk factors such as rapid increases in enrollment and poor administrative and documentation practices when developing its audit plan, the Department weakens its oversight of PPR funds.

The Department should take steps to ensure that online funding is allocated in a fair and consistent manner and provide adequate oversight of and accountability for public school funds. These steps should include defining online programs for funding purposes, developing written policies and guidelines for documenting student attendance in online classes, funding programs in accordance with the

definition and documentation requirements, and establishing a comprehensive risk-based audit approach.

Recommendation No. 13:

The Department of Education should ensure that public K-12 education funds are accurately disbursed by:

- a. Working with the General Assembly to clearly define what is an online program that should be funded at the online PPR rate.
- b. Defining the term “substantially completed” for online funding purposes.
- c. Developing clear and comprehensive criteria for the documentation required to demonstrate student attendance in an online school and ensuring that Department auditors use the criteria during count audits to determine the appropriateness of funding of all students.
- d. Establishing a more comprehensive risk-based approach to scheduling its pupil count audits. The Department should include factors such as rate of growth, the existence of new programs such as online schools, and reports of other administrative problems, as indicators of risk.

Department of Education Response:

Partially Agree. Implementation date: June 2007.

- a. Agree. The Department agrees to work with the General Assembly to develop a better definition and clarity regarding online programs for funding purposes.
- b. Agree. The Department agrees to clearly define the term “substantially completed” for purposes of funding online schools and programs.
- c. Agree. The Department agrees to develop clear and comprehensive criteria for documenting student attendance in online schools. Documentation criteria were determined with the assistance of an “Online Advisory Committee” working with the Department. It is now evident that these criteria were not sufficient and need to be more clearly and comprehensively defined.

- d. Disagree. The Department already uses a risk-based approach in determining the audit schedule. The Department has determined that the largest districts have the “greatest risk” in numbers of students that may be ineligible for funding.

Auditor Addendum

Organizations are responsible for continually reassessing potential risks that could adversely affect their operations. The findings in our audit clearly indicate that online schools represent a significant risk in terms of inappropriate expenditure of public funds due to failure to appropriately document whether students were, in fact, in attendance on October 1 and eligible for public funding. The Department should revise its risk-based audit methodology to reflect the changes in the educational environment brought about by online education.

Funding Adjustments

According to statute [Section 22-33-104.6(6), C.R.S.], if a student transfers after October 1 to an online school within the same school district where the student was enrolled during the pupil count, the Department is to reduce the per pupil funding (PPR) from the district’s regular amount to the minimum amount.

We found the Department does not adjust the funding for students who transfer from a brick-and-mortar to an online school during the school year. This is because the Department only collects comprehensive student count data once a year in October, so it does not have complete information about student transfers later in the year. It is important to note that the Department does not adjust the funding for any student transfers that occur during the year, such as when a student moves from one school district to another. The Department believes that attempting to accurately track student transfers would tax the resources of both school districts and the Department. School districts would have to report the transfers and the Department would have to verify the reported data. The Department estimates that its Audit Unit would have to double in size from 5 auditors to 10, costing about \$340,000 per year, to verify reported transfer information.

The Department should determine how to comply with the statutory requirement regarding transfers from brick-and-mortar to online schools. If the Department believes the requirement is not cost-effective, it should work with the General Assembly to remove the requirement from statute.

Recommendation No. 14:

The Department of Education should determine how to comply with the statutory requirement to adjust funding for students who transfer from a brick-and-mortar to an online school during the year or consider seeking a statutory change to eliminate the requirement.

Department of Education Response:

Agree. Implementation date: 2007 Legislative Session. The Department agrees to seek a statutory change to eliminate the requirement. There is no good way to verify that such a change has taken place. The review of documentation and schedules for the entire year would be much more time consuming than cost effective. The Department believes there are many more students returning to brick-and-mortar schools from online programs throughout the year than those moving to online from brick-and-mortar.

Alternative Models of Online Education

Chapter 4

As discussed throughout the audit report, online education represents a significant change in K-12 public education. As a result, the State, school districts, and online schools face unique problems and challenges. For example, in Chapter 1 we discuss the lack of clarity about teacher roles and responsibilities in online schools; in Chapter 2 we note concerns about the legality and safety of Hope Academy’s learning centers; and in Chapter 3 we discuss the higher cost to the State for funding some online students, the unclear definition of an online school for funding purposes, and the requirement to reduce funding for students who transfer from a brick-and-mortar to an online school during the school year. All of these issues are unique to online schools. In addition, the concern that there is no standard definition of “at-risk” for assessing student performance (discussed in Chapter 1) is highlighted in the online environment because many online schools report that they intend to serve primarily at-risk students. Addressing the problems associated with online schools is especially important when the schools cross district boundaries and serve students statewide.

We believe many of the problems we discuss in the audit report are attributable, at least in part, to insufficient oversight and involvement of the Department in online schools. The Department believes that due to local control, individual school issues should be dealt with by school districts. In addition, because the Department views online education as a different method of delivering education—not a significantly different educational model—the Department has not assigned a staff person or unit to be responsible for developing expertise about online education as a whole. As a result, the Department has no centralized resource or knowledge base for online education. Some of the school districts we contacted during the audit reported difficulties in obtaining information from the Department about how laws and rules apply to online schools and, in some cases, indicated they had received conflicting information from different Department staff about how to apply a particular requirement.

Currently, responsibility for dealing with various online education issues is spread throughout the Department. For example:

- Regional managers in the Department’s accreditation unit accredit all school districts, including those with online schools. The accreditation process and

criteria are the same regardless of whether a district has a significant number of online schools or students, or none at all. As discussed in Chapters 1 and 2, we found significant problems with the Department's accreditation process as it relates to accrediting school districts with online schools.

- Staff within the Department's Data and Research unit are responsible for assisting all school districts with reporting human resource data, including districts with online schools. However, these staff do not have in-depth knowledge regarding online schools and the different roles teachers and paraprofessionals may play in an online setting. In Chapter 1 we note instances in which school districts with online schools incorrectly reported staffing information to the Department. One school district we reviewed indicated that it had reported data in accordance with directions given by Department staff in the Consolidated Federal Programs unit.
- Currently the Department's chief of staff and legislative liaison administer the Alternative Education Campus (AEC) designation process. We discuss substantial concerns with the AEC process in Chapter 1. Having a well-defined process that accounts for the unique aspects of online schools is particularly important because there is a high potential for online schools to seek AEC designation. The online schools we reviewed indicated that they serve primarily at-risk students; therefore, these schools may be more likely than brick-and-mortar schools to apply for AEC status. In addition, since AECs do not receive academic performance ratings on their School Accountability Reports, parents and other interested parties do not have rating information to help them make informed decisions about keeping their students in online schools which have been designated AECs.
- The Department's School Finance unit is responsible for funding and auditing the pupil counts of all school districts, including those with online schools. In Chapter 3 we note a number of problems with proper funding of some schools that had reported having online students, a lack of clarity about the documentation requirements for online students, and weaknesses in the audit process.
- No one in the Department has responsibility for managing complaints, including those related to online schools, as discussed in Chapter 2. The Department reported it had received a high number of complaints about one online school. However, no one in the Department is assigned to deal with the issues raised, including those that affect multiple districts, such as questions about the legality of learning centers operating outside the boundaries of the chartering district.

We believe this fragmentation of responsibility contributes to the problems we identified. By assigning dedicated staff resources to online education, the Department could develop expertise and better address the issues facing online programs.

Overall, the concerns we identified during the audit indicate a need for the Department to reassess its oversight role with respect to online education, particularly in terms of online schools that enroll students from around the State. We identified a number of options the Department should consider to expand its role in online education, as described below.

Direct accreditation of online schools. The Department could directly monitor and accredit online schools that serve students from multiple school districts. This model would help ensure that all online schools that serve students from different districts are held to similar standards. It would also allow the Department to identify online-specific issues and assist school districts in managing those issues. The Colorado Online Education Programs Study Committee (Committee) recommended in May 2003 that online programs be “individually and directly subject to accreditation requirements, rather than indirectly accredited through their respective districts because some quality and accountability issues (course design and student support) are unique to online programs. The direct involvement of the Department in the accrediting process promises to improve the quality and accountability of online education.”

Approval of new online schools. The Department could develop criteria for assessing and approving new online schools that serve students from multiple school districts. This model would allow the Department to evaluate the structure, planned operations, student population to be served, and overall feasibility of proposed online schools. We found that some other states, such as Ohio, Pennsylvania, and Minnesota, require online schools that expand beyond district boundaries to be approved by the state education agency, while schools that offer online curricula for students only within the home school district’s boundaries are established and approved at the local level. The Pennsylvania Department of Education has a very specific role in overseeing statewide online schools; it reviews the online school’s mission, design, community and parental support, financial backing, and novelty of education programs to try to minimize redundancy in statewide online schools. To be approved, these statewide online schools must have specific educational goals that are unique and useful to the Pennsylvania educational system as a whole. The Pennsylvania Department of Education also requires their statewide online schools to maintain comprehensive records relating to school management and student performance and make the files available to the Department upon request. The Pennsylvania Department has a yearly process to work with the schools to identify areas for improvement and increase accountability. This process uses a six-point approach to track the progress of online charter schools that focuses on data, mission,

quality leadership, quality teaching, artful use of infrastructure, and a continuous learning ethic. When needed, the Pennsylvania Department has the power to immediately revoke a school's charter.

Direct management of online schools. The Department could serve as a virtual school district for online schools that serve students from various districts. The Department currently carries out many of the functions of a school district for charter schools that are established through the Charter School Institute (CSI). CSI is an agency within the Department that approves and oversees charter schools in districts that choose not to carry out this responsibility themselves. CSI charter schools are funded through PPR provided by the school district where the charter school is physically located, but CSI acts as a local education authority responsible for distributing and managing those funds. Schools chartered through CSI have local boards that can address problems brought by parents. If issues are not resolved by the local board, CSI has its own board that can address problems.

In addition to improving accountability, some of these models, particularly the direct approval of online schools (if the approval process includes an assessment of a school's plans for parental involvement) and direct management of online schools, could help alleviate the barriers to parent involvement that exist in some online schools. Currently parents and other interested parties may influence educational policy in their school districts through visits with school administrators, attending school board meetings, and voting for or becoming a member of the local school board. However, parents face difficulties in actively participating in the public education system when their children attend an online school that is managed by a district far from where they live.

The Hope Online Learning Academy Co-Op (Hope Academy) provides an example of how parents may have restricted opportunities to have input into the operations of the public school their children attend. Hope Academy primarily serves students living in the Denver-metro area but is chartered by the Vilas RE-5 school district (Vilas), which is located in the southeastern-most county in Colorado. Parents of Hope Academy students are at a disadvantage in communicating with the school district administration and the Vilas school board; parents most likely do not have the option to meet face-to-face with school district administrators or attend a Vilas school board meeting because the district is too far away. Moreover, parents of Hope Academy students do not vote for the Vilas school board. The barriers to communication also mean that local school board members may not be aware of problems with the online schools they have established. One parent whose child attended a Hope Academy learning center in the 2006-2007 school year did not know that Vilas was the chartering school district and therefore, did not seek the district's assistance in resolving her complaints and concerns related to the learning center. In fact, until she withdrew her child from the center, she was not aware that Hope Academy had any oversight responsibilities. In contrast, when parents of a student

attending a brick-and-mortar school need information or have concerns, they can easily contact the child's teacher, the school principal, or school district administrators, and even attend a local school board meeting. Although Hope Academy serves as an example, the same communication problems would exist with any school that operates statewide.

If the Department takes a more direct role by accrediting, approving, and/or overseeing online schools, it may need to establish a mechanism to identify the costs of online education as a basis for determining funding. According to information from the Department, in Fiscal Year 2006 school districts with online schools received about \$32.8 million in Public School Finance Act monies for their online students. Fiscal Year 2006 data were not available from all the school districts we reviewed at the time of the audit so we could not determine the proportion of the \$32.8 million that was distributed directly to online schools. For Fiscal Year 2005, we were able to estimate that online schools received about 91 percent of the Public School Finance Act monies allocated to their school districts. Although we reviewed financial information from our sample of 12 schools, as well as from the school districts that established them, we could not distinguish the costs of providing an education to online students from the costs for other students. This is because school districts do not typically maintain online monies in separate funds nor do they consistently account for their spending of funds associated with students in online schools. As a result, there is no way to precisely determine the total costs to operate an online school or to compile a statewide total for online schools. In addition, it is not possible to examine school district expenditures of funds received for online students as distinct from funds for other students.

In general, because statutes allow school districts to determine how to use their education monies, the Department does not require schools or school districts to track funds for specific student populations. However, there are some instances in which school districts are required to direct funds to serve specific student groups, such as with the preschool program and charter schools.

The seriousness of the problems we identified in the audit demonstrates a need for immediate action to improve accountability for online schools. We found that one state, Ohio, placed a moratorium on the establishment of new online schools to allow time to develop appropriate standards and mechanisms to ensure the schools are accountable. Ohio has experienced growth similar to Colorado in its online education programs. Ohio has also encountered oversight and accountability problems similar to those we found in Colorado, including lack of clarity of attendance requirements, difficulties attaining student performance objectives, challenges to ensuring that online teachers are qualified, and an inability to track costs. Starting in 2005, the Ohio General Assembly prohibited the establishment of new online schools until these issues are adequately addressed. To date, the moratorium has not been lifted.

To improve the performance and accountability of online education, the Department should, at a minimum, assign a staff person or unit to develop expertise about online education issues and serve as a resource for school districts with online schools. In addition, the Department should consider adopting one or a combination of the models discussed above to take on a more direct role in online education. Further, given the seriousness of the problems we found with the current oversight of online education, it may be prudent to enact a moratorium on establishing new public online schools until the recommendations in this report are implemented and the General Assembly determines if the Department should have more direct authority over online schools.

Recommendation No. 15:

The Department of Education should increase accountability for online education by restructuring how it oversees online schools. At a minimum, the Department should assign a staff member or unit to serve as a centralized expert and resource for online education. In addition, the Department should work with the General Assembly to evaluate options for increasing accountability for online schools. These options include:

- a. Authorizing the Department to directly accredit online schools that serve students from multiple school districts.
- b. Authorizing the Department to review and approve the establishment of new online schools that plan to serve students from multiple school districts.
- c. Creating a virtual district within the Department that operates in a manner similar to the Charter School Institute by approving and operating online schools that serve students from multiple school districts.

If the Department takes a more direct role in approving and overseeing online schools, it should consider establishing methods to identify online education costs to serve as a basis for determining an appropriate funding level for online schools.

Department of Education Response:

Partially Agree. Implementation date: 2007 Legislative Session. The Department agrees with assigning a staff member or unit to serve as a centralized expert and resource for online education but would appreciate General Assembly support for hiring staff to specifically support online education efforts in Colorado school districts. The Department envisions such an effort as a supportive role to districts by researching and promoting

best practices, offering training and technical assistance, and leading efforts to continually improve the use of technology in education. The Department agrees to work with the General Assembly to craft legislation to address the various issues regarding online programs and resources required to implement the legislation.

The Department does not agree that it should evaluate the options in parts “a”, “b”, or “c”, above. The Department does not agree that it is appropriate for the Department to approve the creation of local Colorado district online schools or supervise their operations.

Auditor Addendum

The State distributed about \$32.8 million to school districts to support online education in Fiscal Year 2006 and this figure is expected to grow rapidly in the near future. The State Board, which is defined in Section 22-2-103, C.R.S., as being part of the Department, is charged under Section 22-2-106(1), C.R.S., with submitting recommendations to the Governor and General Assembly for improvements in education. Evaluating options to increase accountability for online education is consistent with this charge and is vital to addressing concerns about the quality of online education.

Recommendation No. 16:

The Department of Education should consider seeking a statutory moratorium on the establishment of new public online schools until the recommendations from this report are implemented and any statutory changes in the Department’s role are enacted.

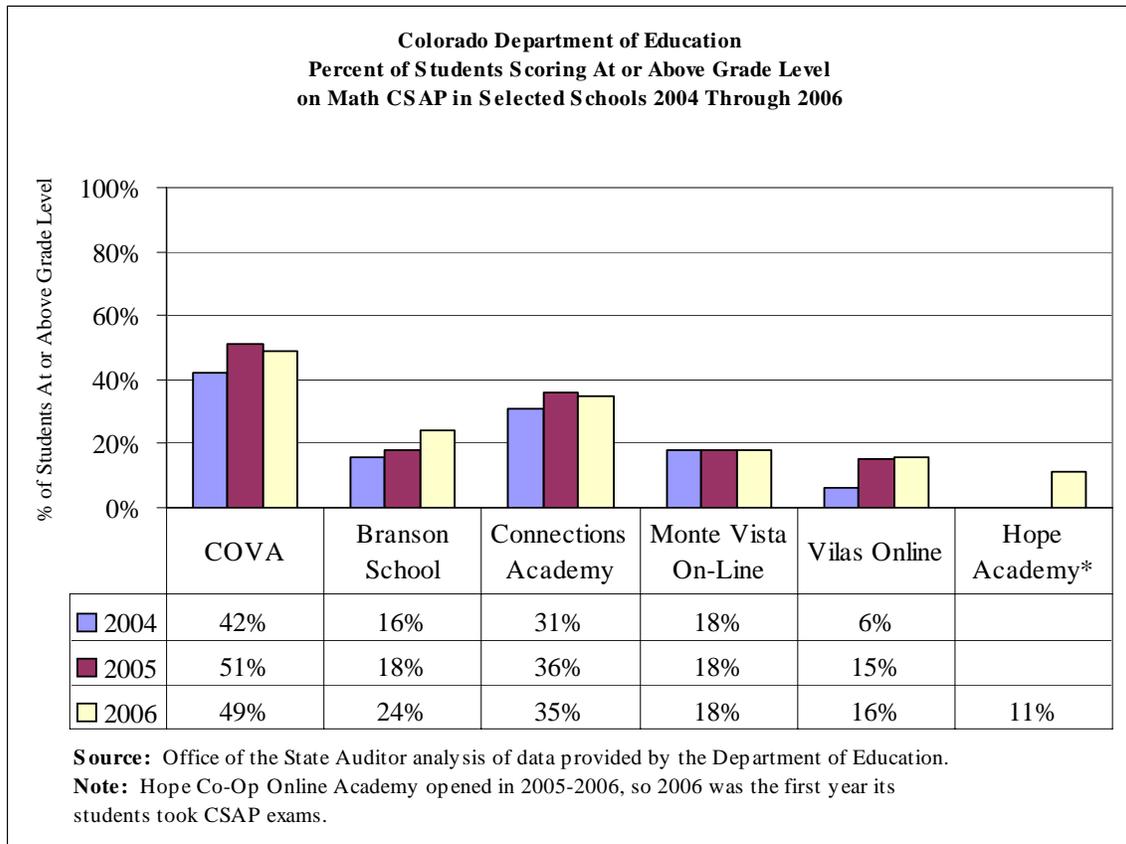
Department of Education Response:

Disagree. The Department of Education does not agree it is the Department’s role to seek a moratorium on the establishment of local public online schools nor does the Department agree that a moratorium is warranted.

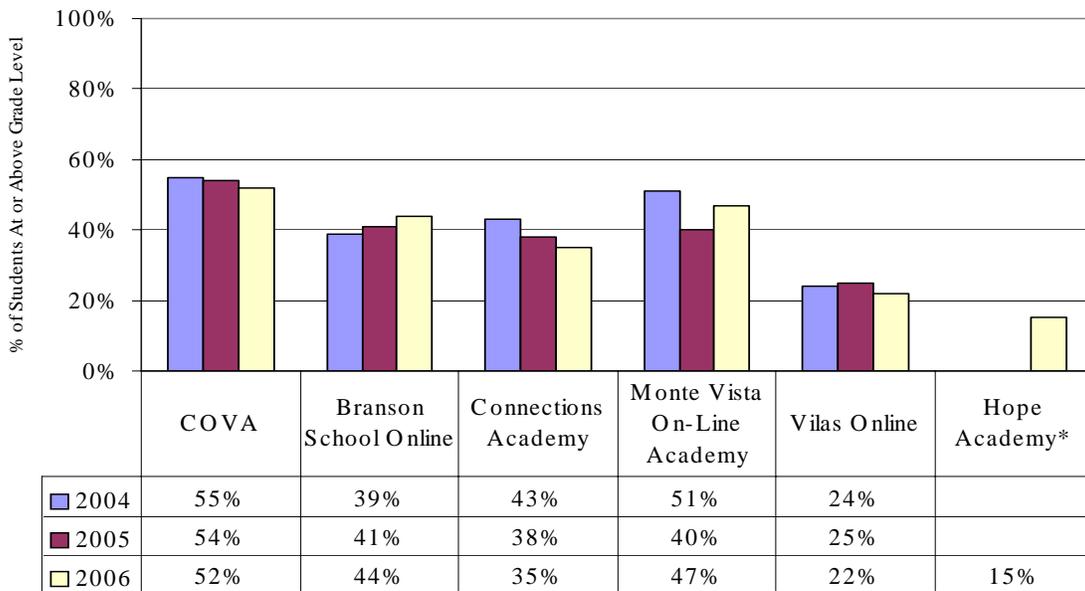
Appendix A

CSAP Performance of Six of the Largest Online Schools

The following charts show CSAP results for 2004 through 2006 for six of the largest online schools we reviewed. We did not report the results for smaller schools to prevent disclosure of individual student results.



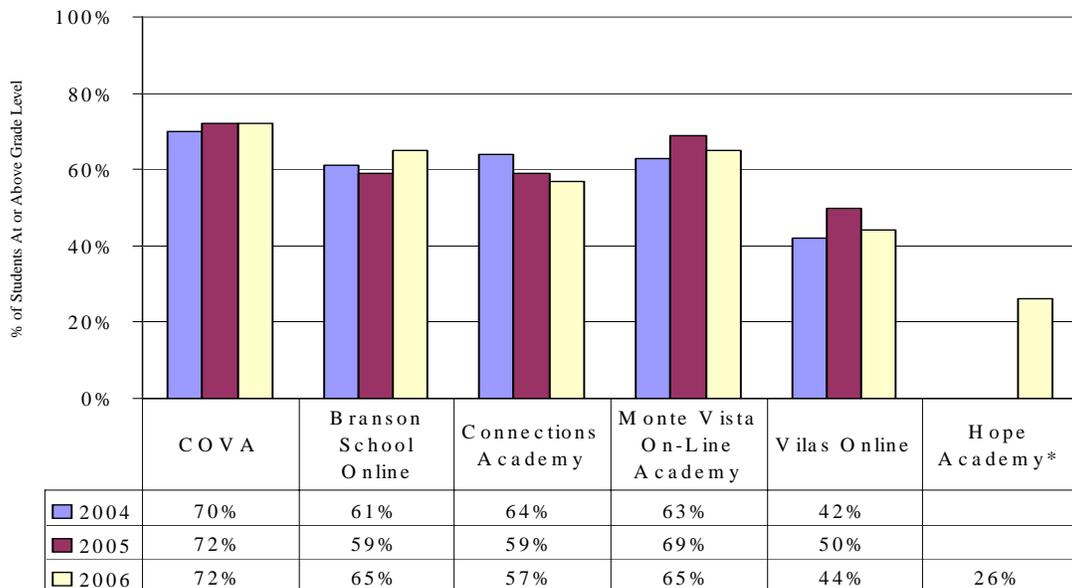
**Colorado Department of Education
Percent of Students Scoring At or Above Grade Level
on Writing CSAP in Selected Schools 2004 Through 2006**



Source: Office of the State Auditor analysis of data provided by the Department of Education.

Note: Hope Co-Op Online Academy opened in 2005-2006, so 2006 was the first year its students took CSAP exams.

**Colorado Department of Education
Percent of Students Scoring At or Above Grade Level
on Reading CSAP in Selected Schools 2004 Through 2006**



Source: Office of the State Auditor analysis of data provided by the Department of Education.

Note: Hope Co-Op Online Academy opened in 2005-2006 so 2006 was the first year its students took CSAP exams.

Appendix B

Accreditation Indicators

Source: Colorado State Board of Education Rules for the Administration of the Accreditation of School Districts

To be accredited, districts must meet or exceed the following indicators:

1. Implementation of an education improvement plan which includes best educational practices, including: (1) setting high goals for student achievement; (2) advancing recognized instructional strategies; (3) promoting standards-based instruction; (4) using state and local assessments; (5) incorporating parent, student and community participation; (6) assuring that districts have adequate policies and that these policies are being implemented and in compliance with state statutes, rules and regulations; and (7) other requirements as outlined in the accreditation contract.
2. Achievement of district established goals for improvement over time in reading, writing, and mathematics measured by CSAP district weighted scores of student cohorts.
3. Achievement of district established goals for reducing learning gaps in reading, writing, and mathematics measured by disaggregated CSAP data for all students in accordance with House Joint Resolution 01-1014 concerning closing the learning gap.
4. Achievement of district established CSAP goals which demonstrate a minimum of one year's increase in student achievement for each year in school for all disaggregated groups of students. Additional department approved measures may be presented to demonstrate one year's growth in student achievement.
5. Achievement of district established goals in the following curriculum areas: science, history, geography, art, music, physical education, foreign language, economics, and civics.
6. Evidence of compliance with all requirements related to School Accountability Reports [Section 22-7-601 through 610, C.R.S.].
7. Evidence of compliance with the Educational Accreditation Act [Section 22-11-101 through 204, C.R.S.].
8. Evidence of compliance with the Safe Schools Act [Section 22-32-109 (1) and (2) C.R.S.] and the Gun-Free Schools Act [Public Law 107-110, Title IV, Subpart 3, Section 4141].

9. Evidence of compliance with the Colorado Basic Literacy Act [Section 22-7-501 through 505, C.R.S.].
10. Plan for technology/information literacy; contextual learning; teacher recruitment and retention; and attendance and graduation rates.
11. Evidence of compliance with budgeting, accounting, and reporting requirements [Sections 22-44-101 through 206 and 22-45-101 through 113, C.R.S.].

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