

STATE BOARD OF ACCOUNTS
302 West Washington Street
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SPECIAL COMPLIANCE REPORT
OVER

AVERAGE DAILY MEMBERSHIP AND
TUITION SUPPORT PAYMENTS

STATE OF INDIANA



FILED
08/07/2020

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STATE OF INDIANA

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TO: THE OFFICIALS OF THE INDIANA STATE BOARD OF EDUCATION AND
THE INDIANA DEPARTMENT OF EDUCATION, STATE OF INDIANA

This is a special compliance report over the average daily membership and tuition support payments for the State of Indiana and is in addition to any other report as required under Indiana Code 5-11-1.

We performed procedures to determine compliance, including related internal controls, with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts and were limited to average daily membership and tuition support payments. The Comments contained herein describe the results of these procedures. Our procedures were not designed to identify all instances of noncompliance or control deficiencies; therefore, noncompliance or control deficiencies may exist that are unidentified.

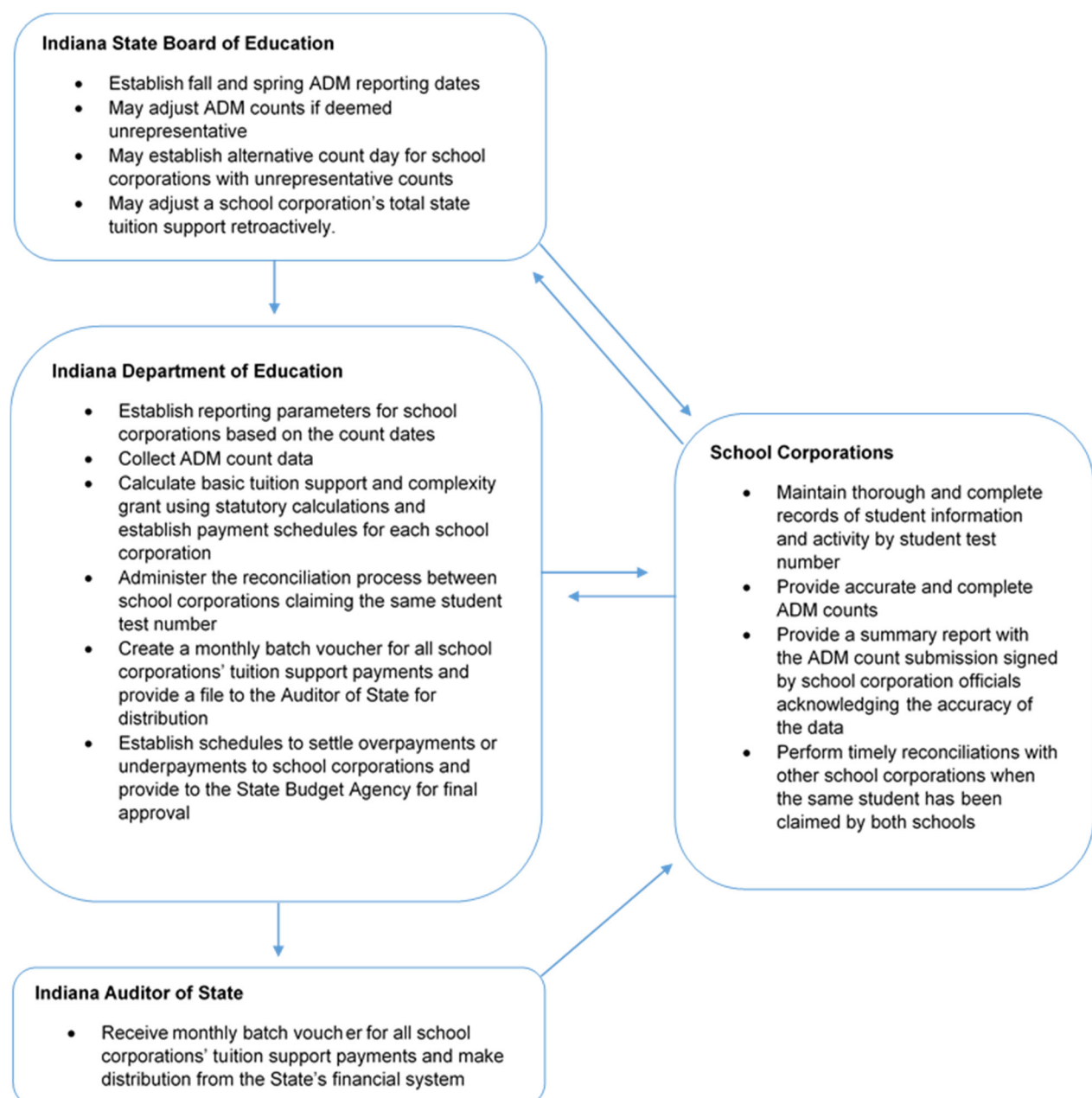
Any Official Response to the Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

March 26, 2020

OVERVIEW OF TUITION SUPPORT

State of Indiana support for public education represents the largest component of State General Fund expenditures. In fiscal year 2019, education expenditures represented more than 50 percent of total General Fund expenditures. The largest portion of these expenditures, basic tuition support and the complexity grant, were approximately \$6.2 billion. Amounts distributed to Indiana school corporations for basic tuition support and the complexity grant are calculated based on a student count, referred to as average daily membership (ADM), compiled by school corporations and submitted to the Indiana Department of Education (IDOE). Ensuring school corporations are provided the funding to which they are entitled is the responsibility of IDOE, the Indiana State Board of Education (State Board), and the Indiana Auditor of State (AOS). However, it is also the responsibility of the school corporations to provide accurate, complete, and timely data in order to ensure that IDOE and the State Board can make the correct determinations for funding distribution. The chart below and contents of this Report summarize in detail statutory duties for each of the foregoing parties.



Indiana State Board of Education

Pursuant to Indiana Code 20-43-4-3, the State Board establishes the reporting dates for ADM reporting to IDOE. For the State fiscal year ended June 30, 2019, those dates were determined to be September 14, 2018, and February 1, 2019. State tuition support calculations are based on these ADM counts. Indiana Code 20-43-4-2(a) further establishes that the State Board may adjust a school corporation's count if it is determined the count is unrepresentative of the school corporation's enrollment. Further, a school corporation can petition to the State Board to adjust the count if the school corporation has reason to believe their count is unrepresentative of the school corporation's enrollment. Per Indiana Code 20-43-4-3(b), in the event the State Board determines the enrollment on the fixed count date is unrepresentative of the school corporation's enrollment, the State Board may designate another day for determining the school corporation's ADM. Under Indiana Code 20-43-4-9(c), counts adjusted by the State Board after a distribution has been made to a school corporation, are retroactively applied to the school corporation's total state tuition support. Overpayment or underpayment of state tuition support based on an adjusted count is settled with the school corporation on a schedule established by IDOE and approved by the State Budget Agency.

Indiana State Department of Education

Pursuant to Indiana Code 20-43-4-2, IDOE is responsible for collection of ADM data submitted by school corporations as of the dates determined by the State Board. In order to administer a uniform process across all school corporations, IDOE provides written guidance to school corporations in the form of data layouts. The data layouts provide a uniform platform for reporting of ADM and other required data. In addition to the specific technical requirements for submission, the layouts provide the time frame for submission, clean up, and approval of the reported data.

Additionally, IDOE establishes instructions for school corporations for proper action when a student has been counted by more than one school corporation. IDOE oversees the reconciliation process between school corporations to ensure the final calculations of tuition support are free of duplicate student claims. Once all student duplications have been rectified, IDOE performs the calculation of each school corporation's tuition support based on the funding model prescribed by Indiana Code 20-43-6-3. Once the tuition support calculation process has concluded and all school corporations are notified of their annual and monthly distribution amounts, IDOE prepares a batch voucher file each month, which contains the monthly amount due to each school corporation. IDOE officials initiate and perform the first approval of the batch payment in the State's accounting system. The voucher is then provided to AOS to distribute state tuition support to the school corporations.

As identified above, if it is determined a school corporation received an incorrect distribution due to an incorrect ADM count or any other reason, IDOE establishes a schedule to settle the overpayment or underpayment distributed to the school corporation. The schedule is approved by the State Budget Agency. Subsequent batch vouchers prepared by IDOE are updated accordingly to reflect the changes in the schedule.

Indiana Auditor of State

AOS is responsible for final distribution of monthly tuition support to school corporations. Each month, IDOE provides AOS with a batch voucher file which contains the amounts to be paid to each school corporation. The transaction is initiated and approved in the State's accounting system by IDOE and then sent to AOS to authorize disbursement in accordance with law.

Indiana School Corporations (Public, Charter, and Virtual Charter)

It is the responsibility of school corporations to maintain proper records for their students and provide IDOE with accurate and complete ADM data in the time and manner established by the State Board and IDOE. School corporation officials are to review and approve the data counts and ensure the accuracy prior to submission. Additionally, school corporations must perform timely reconciliations with other school corporations whenever the same student has been claimed by multiple school corporations. Because the funding formulas for basic tuition support and complexity grants are dependent on ADM counts, there is an inherent incentive for school corporations to increase ADM.

FISCAL YEAR 2019 ADM INFORMATION

As mentioned above in the overview of tuition support, for the State fiscal year ended June 30, 2019, ADM count dates were determined to be September 14, 2018, and February 1, 2019. School corporations had twelve days after count day (September 14, 2018 to September 26, 2018) to submit their ADM data to IDOE. Per IDOE instruction, school corporations submit ADM counts via the Student Test Number (STN) Application Center. The STN is a unique number for each student and follows the student throughout the entirety of their education. The STN is assigned at the school corporation level through the STN Application Center and is the identifier used by IDOE to establish if one student has been reported by multiple school corporations. The information that is collected for each student includes, but is not limited to: School Number, STN, and grade level.

Once all ADM counts are received from school corporations, IDOE moves into a data cleanup phase. School corporations are still able to submit ADM data; however, the STN Application Center will not accept STNs that create a conflict during this phase. Also, during this time (September 27, 2018 to October 5, 2018) IDOE verifies: student counts submitted are for students that are at least 5 years of age, in accordance with Indiana Code 20-43-4-5; the school corporation is a valid school corporation; active Real Time (RT) Enrollment has been reported; and the STN actually exists and was not claimed by multiple school corporations. Any resulting errors are included in the summary results report, which is available for the school corporation's review. During the cleanup phase the school corporations work to rectify any errors. In the event of unresolved errors where an active RT record does not exist, the membership enrollment record will fail and the student will be excluded from the ADM count. Further, in the event of unresolved errors where multiple school corporations claim the same STN, the student will not be included in any school corporation's membership count (ADM).

During the data cleanup phase, school corporations are still able to submit their ADM data; however, the STN Application Center will not accept STNs that create a conflict.

Including a student in the ADM count presupposes the student is enrolled and attending school in accordance with relevant statutory definitions. As described above, student information must be reviewed for accuracy by designated school corporation officials prior to submission. IDOE requires school corporation officials print a summary report of the ADM data submitted. This summary is to be signed by the school corporation's Superintendent of Schools, Principal, or Director of Schools, and the Trustee or Corporate Treasurer. By signing the summary, the official "... certifies that this report is true and accurate in every respect to the best of their knowledge and belief." School corporations are then required by IDOE to upload the signed summary to the STN Application Center. Documentation to support the enrollment and attendance information by grade and school building must be signed by the building principal and maintained at the school corporation.

ADDITIONAL INFORMATION

As reported in the Indiana State Board of Accounts Special Investigation Report B54446, Business Consulting Inc. (BCI) and Indiana Virtual Education Foundation (IVEF) substantially misreported students in the ADM data submitted to IDOE. As a result, BCI and IVEF received state tuition support in excess of the amount entitled to them under the funding calculation in Indiana Code 20-43-6-3. During the investigation of BCI and IVEF, we discovered deficiencies in internal controls related to the reporting of ADM and the calculation of tuition support payments. We also identified weaknesses in internal controls related to reporting of other student data. The following paragraphs provide specific information concerning the tuition support process for fiscal year 2019 as well as deficiencies discovered during our investigation of BCI and IVEF.

INTERNAL CONTROL DEFICIENCIES

Reporting of ADM

As identified above in the overview, over \$6.2 billion in State General Fund expenditures were distributed based on the ADM data submitted by school corporations. Equitable distribution of this amount in accordance with the statutory formula is only possible when the ADM data provided by school corporation officials and personnel is accurate, complete, and timely. School corporation officials and personnel, through their certifications of ADM counts, hold responsibility for ensuring the accuracy, completeness, and timeliness of their reports. IDOE designed the summary report with certification by officials and required it to be uploaded into the STN Application Center. Despite reliance on school corporation official's certifications to ensure accuracy, controls were not in place to verify the forms submitted were: 1) the summary report required; 2) physically signed; and 3) signed by school corporation officials serving in the positions required to sign the form. In testing performed during the investigation of BCI and IVEF, as referenced in Report B54446, 40 percent (6 out of 15) of the summary reports for ADM tested were submitted without the required signatures.

Reporting of Real Time Enrollment and Course Completion

Pursuant to Indiana Code 20-19-3-9.4, IDOE requires school corporations to submit RT Enrollment data at least once per week to obtain and maintain information in such a manner that permits any person with authorization to accurately determine where a student is enrolled and attending classes within two (2) regular instructional days of the date of inquiry.

In accordance with Indiana Code 20-20-8-8(a)(9), IDOE requires school corporations to submit Course Completion (CC) Reports to gather information on the number and type of courses that students complete throughout the school year. Written guidance was provided by IDOE to school corporations in the form of data layouts. These data layouts assist with accurate reporting of RT reporting, CC reporting, and other required data. The layouts also provide the time frame for submitting the reported RT and CC data to IDOE.

While course completion is not the standard for whether an individual should be reported as a student for ADM purposes, because RT data is compared to ADM data, a similar comparison of the RT data to the CC data could have been used to detect potential erroneous continued inclusion of students in future ADM counts. For example, a student reported in the fall ADM count for school year (SY) 2017-2018 with no course completions reported during SY 2017-2018 could have been identified as a potential error if reported in the spring ADM count and future ADM counts.

Implementation of this internal control requires complete CC reporting, which IDOE currently does not have for some school corporations, despite IDOE's policy and practice of making multiple requests of noncompliant school corporations.

Other Deficiencies

Attendance data is collected by IDOE in compliance with Indiana Code 20-33-2-3.2 and Indiana Code 20-33-2-14, for the purpose of State and Federal Reporting, and also in accordance with Indiana Code 20-20-8-8 for purposes of providing data needed for the Chronic Absenteeism Rate. This attendance data is not subject to basic verification checks which could have served to indicate invalid ADM reporting. For example, Indiana Virtual School reported a 100 percent rate of attendance for SYs 2012-2013, 2014-2015, 2015-2016, 2016-2017, 2017-2018, and 2018-2019. A review of reported information was not conducted to determine the reasonableness of the attendance data reported.

In addition, a validation of students' legal settlement in Indiana was not performed at the state level to determine improper inclusion of students in the ADM counts. Address information is not collected by IDOE for students. The collection of this data would be valuable in the validation of legal settlement of the student. Per Indiana Code 20-26-11-6, school corporations may accept students who do not have legal settlement in Indiana. However, students not holding legal settlement in Indiana should be excluded from the ADM count submitted to IDOE.

CONCLUSION

The system of internal control over collection of ADM data and distribution of state tuition support should begin with well-defined objectives. The control environment, risk assessment, control activities, information and communication, and monitoring components should then be designed and implemented to function in an integrated manner to achieve management's stated objectives.

For example, if the objective is to provide reasonable assurance that state tuition support will be distributed equitably using the formulas in Indiana Code 20-43-6-3, there is an inherent risk created by the statutory funding formula, which incentivizes a school corporation to increase ADM counts. Management's risk assessment, as a required component of an internal control system, would identify this inherent risk, as well as, the vulnerability that the State could over rely on self-reported ADM information. It is management's decision to accept the risk, mitigate the risk, or a combination of both.

The information above reports control activities that appear to have been designed to mitigate this risk, but were not properly implemented to be effective. Additional control procedures that could have been designed and implemented with existing data were also identified above for consideration by management.

Management should perform a comprehensive review of the current internal control system beginning with the objectives to be achieved and working through the five interrelated components and seventeen principles of internal control required by Chapter 2 of *The Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies*.

CRITERIA

Indiana Code 4-7-1-2 states in part:

"The auditor of state shall do the following: . . .

- (8) Draw warrants on the treasurer of state or authorize disbursement through electronic funds transfer in conformity with IC 4-8.1-2-7 for all money directed by law to be paid out of the treasury to public officers or for any other object whatsoever as the warrants become payable. . . ."

Indiana Code 20-19-2-14 states in part:

"The state board shall do the following: . . .

- (3) Assure compliance with established standards and objectives. . . .
- (5) Make recommendations to the governor and general assembly concerning the educational needs of the state, including financial needs."

Indiana Code 20-19-3-9.4(a) states:

"Beginning January 1, 2010, the department may obtain and maintain student test number information in a manner and form that permits any person who is authorized to review the information to:

- (1) access the information at any time; and
- (2) accurately determine:
 - (A) where each student is enrolled and attending classes; and
 - (B) the number of students enrolled in a school corporation or charter school and residing in the area served by a school corporation;

as of any date after December 31, 2009, occurring before two (2) regular instructional days before the date of the inquiry.

Each school corporation and charter school shall provide the information to the department in the form and on a schedule that permits the department to comply with this section. The department shall provide technical assistance to school corporations and charter schools to assist school corporations and charter schools in complying with this section."

Indiana Code 20-20-8-8 states:

"(a) The report must include the following information:

- (1) Student enrollment.
- (2) Graduation rate (as defined in [IC 20-26-13-6](#)) and the graduation rate excluding students that receive a graduation waiver under [IC 20-32-4-4](#) or [IC 20-32-4-4.1](#).
- (3) Attendance rate.
- (4) The following test scores, including the number and percentage of students meeting academic standards:
 - (A) All state standardized assessment scores.
 - (B) Scores for assessments under [IC 20-32-5-21](#) (before its expiration on July 1, 2018), if appropriate.
 - (C) For a freeway school, scores on a locally adopted assessment program, if appropriate.
- (5) Average class size.
- (6) The school's performance category or designation of school improvement assigned under [IC 20-31-8](#).

- (7) The number and percentage of students in the following groups or programs:
 - (A) Alternative education, if offered.
 - (B) Career and technical education.
 - (C) Special education.
 - (D) High ability.
 - (E) Limited English language proficiency.
 - (F) Students receiving free or reduced price lunch under the national school lunch program.
 - (G) Students in foster care.
- (8) Advanced placement, including the following:
 - (A) For advanced placement tests, the percentage of students:
 - (i) scoring three (3), four (4), and five (5); and
 - (ii) taking the test.
 - (B) For the Scholastic Aptitude Test:
 - (i) the average test scores for all students taking the test;
 - (ii) the average test scores for students completing the Indiana diploma with a Core 40 with academic honors designation program; and
 - (iii) the percentage of students taking the test.
- (9) Course completion, including the number and percentage of students completing the following programs:
 - (A) Academic honors curriculum.
 - (B) Core 40 curriculum.
 - (C) Career and technical programs.
- (10) The percentage of graduates considered college and career ready in a manner prescribed by the state board.
- (11) School safety, including:
 - (A) the number of students receiving suspension or expulsion for the possession of alcohol, drugs, or weapons; and
 - (B) the number of incidents reported under [IC 20-33-9](#).
- (12) Financial information and various school cost factors required to be provided to the office of management and budget under [IC 20-42.5-3-5](#).

- (13) The number and percentage of each of the following within the school corporation:
 - (A) Teachers who are certificated employees (as defined in [IC 20-29-2-4](#)).
 - (B) Teachers who teach the subject area for which the teacher is certified and holds a license.
 - (C) Teachers with national board certification.
 - (14) The percentage of grade 3 students reading at grade 3 level.
 - (15) The number of students expelled, including the percentage of students expelled disaggregated by race, grade, gender, free or reduced price lunch status, eligibility for special education, and students in foster care.
 - (16) Chronic absenteeism, which includes the number of students who have been absent from school for ten percent (10%) or more of a school year for any reason.
 - (17) Habitual truancy, which includes the number of students who have been absent ten (10) days or more from school within a school year without being excused or without being absent under a parental request that has been filed with the school.
 - (18) The number of students who have dropped out of school, including the:
 - (A) reasons for dropping out; and
 - (B) percentage of students who have dropped out, disaggregated by race, grade, gender, free or reduced price lunch status, eligibility for special education, and students in foster care.
 - (19) The number of out of school suspensions assigned, including the percentage of students suspended disaggregated by race, grade, gender, free or reduced price lunch status, eligibility for special education, and students in foster care.
 - (20) The number of in school suspensions assigned, including the percentage of students suspended disaggregated by race, grade, gender, free or reduced price lunch status, eligibility for special education, and students in foster care.
 - (21) The number of student work permits revoked.
 - (22) The number of students receiving an international baccalaureate diploma.
- (b) Section 3(a) of this chapter does not apply to the publication of information required under this subsection. This subsection applies to schools, including charter schools, located in a county having a consolidated city, including schools located in excluded cities (as defined in [IC 36-3-1-7](#)). A separate report including the information reported under subsection (a) must be:
- (1) disaggregated by race, grade, gender, free or reduced price lunch status, eligibility for special education, and students in foster care; and
 - (2) made available on the Internet as provided in section 3(b) of this chapter."

Indiana Code 20-26-11-6 states:

"(a) A school corporation may accept a transferring student without approval of the transferor corporation under section 5 of this chapter.

(b) A transfer may be accepted regardless of whether, as a condition of the transfer, the transferee school requires the requesting parents or student to pay transfer tuition in an amount determined under the formula established in section 13 of this chapter for the payment of transfer tuition by a transferor school corporation. However, if the transferee school elects to charge transfer tuition, the transferee school may not offset the amounts described in section 13(b) STEP TWO (B) through section 13(b) STEP TWO (D) of this chapter from the amount charged to the requesting parents or student.

(c) When the transferee school elects to charge tuition to the requesting parents or student, the tuition determined under subsection (b) must be paid by the parents or the student before the end of the school year in installments as determined by the transferee corporation.

(d) Failure to pay a tuition installment that is agreed to by the parents or student and the transferee school corporation is a ground for exclusion from school.

(e) If the transferee school elects not to charge transfer tuition to the parents or student under this section, the transferee school may not charge transfer tuition or fees to the transferor school."

Indiana Code 20-33-2-3.2 states:

"As used in this chapter, 'attend' means to be physically present:

(1) in a school; or

(2) at another location where the school's educational program in which a person is enrolled is being conducted;

during regular school hours on a day in which the educational program in which the person is enrolled is being offered."

Indiana Code 20-33-2-14 states:

"(a) This section and sections 15 through 17.5 of this chapter apply to a student who attends either a public school or a nonpublic school.

(b) The governing body of each school corporation shall have a policy outlining the conditions for excused and unexcused absences. The policy must include the grounds for excused absences required by sections 15 through 17.5 of this chapter or another law. Any absence that results in a person not attending at least one hundred eighty (180) days in a school year must be in accordance with the governing body's policy to qualify as an excused absence.

(c) Service as a page for or as an honoree of the general assembly is a lawful excuse for a student to be absent from school, when verified by a certificate of the secretary of the senate or the chief clerk of the house of representatives. A student excused from school attendance under this section may not be recorded as being absent on any date for which the excuse is operative and may not be penalized by the school in any manner."

Indiana Code 20-43-1-6 states: "'ADM' refers to the average daily membership determined under IC 20-43-4."

Indiana Code 20-43-1-7.5 states: "'Attending' means physical or virtual presence of a student with the expectation of continued serves in the education programs for which the student is registered."

Indiana Code 20-43-1-11 states: "'Eligible pupil' refers to an individual who qualifies as an eligible pupil under IC 20-43-4-1."

Indiana Code 20-43-1-11.5 states:

"'Enrolled' means to be:

- (1) registered with a school corporation to attend educational programs offered by or through the school corporation; and
- (2) attending these educational programs or receiving educational services."

Indiana Code 20-43-1-23 states:

"'School Corporation' means the following:

- (1) Any local public school corporation established under Indiana law.
- (2) Except as otherwise indicated in this article, a charter school."

Indiana Code 20-43-1-25 states:

"'State tuition support' means the amount of state funds to be distributed to:

- (1) a school corporation other than a virtual charter school in an state fiscal year under this article for all grants, distributions, and awards described in IC 20-43-2-3; and
- (2) a virtual charter school in any state fiscal year under IC 20-43-6-3."

Indiana Code 20-43-1-31 states: "'Virtual charter school' has the meaning set forth in IC 20-24-1-10."

Indiana Code 20-24-1-10 states:

"'Virtual charter school' means any charter school, including a conversion charter school, in which more than fifty percent (50%) of instruction is provided in an interactive learning environment created through technology in which students are separated from their teacher by time or space, or both."

Indiana Code 20-43-2-1 states in part:

"The department shall distribute the amount appropriated by the general assembly for distribution as state tuition support in accordance with this article . . . The appropriations for state tuition support shall be made each state fiscal year under a schedule set by the budget agency and approved by the governor. However, the schedule must provide:

- (1) for at least twelve (12) payments;
- (2) that one (1) payment shall be made at least every forty (40) days; and
- (3) the total of the payments in each state fiscal year must equal the amount required under this article."

Indiana Code 20-43-4-1(a) states in part:

"An individual is an eligible pupil if the individual is a pupil enrolled in a school corporation and:

- (1) the school corporation has the responsibility to educate the pupil in its public schools without the payment of tuition . . . "

Indiana Code 20-43-4-2 states in part:

"(a) A school corporation's ADM is the number of eligible pupils enrolled in:

- (1) the school corporation; or
- (2) a transferee corporation;

on the day fixed in September by the state board for a count of students under section 3 of this chapter and as subsequently adjusted not later than the date specified under the rules adopted by the state board. The state board may adjust the school's count of eligible pupils if the state board determines that the count is unrepresentative of the school corporation's enrollment. In addition, a school corporation may petition the state board to make an adjusted count of students enrolled in the school corporation if the corporation has reason to believe that the count is unrepresentative of the school corporation's enrollment. In addition, a school corporation shall determine the number of eligible pupils enrolled in:

- (1) the school corporation; or
- (2) a transferee corporation;

on a day fixed in February by the state board for a spring count of students to be used only for informational purposes under this article. Except as specifically provided by law, the spring count shall not be used for determining school funding under this article.

(b) Each school corporation shall, before April 1 of each year, provide to the department an estimate of the school corporation's ADM that will result from the count of eligible pupils in the following September. The department may update and adjust the estimate as determined appropriate by the department. In each odd-numbered year, the department shall provide the updated and adjusted estimate of the school corporation's ADM to the legislative services agency before April 10 of that year. . . ."

Indiana Code 20-43-4-3 states:

"(a) Subject to subsection (b), the state board shall make an ADM count of the eligible pupils enrolled in each school corporation two (2) times each school year, with one (1) count date occurring in each of the following periods:

- (1) The fall count of ADM shall be made on a day during September fixed by the state board.
- (2) The spring count of ADM shall be made on a day during February fixed by the state board.

(b) However, if extreme patterns of:

- (1) student in-migration;
- (2) illness;
- (3) natural disaster; or
- (4) other unusual conditions in a particular school corporation's enrollment;

on either a count day fixed by the state board or the subsequent adjustment date cause the enrollment to be unrepresentative of the school corporation's enrollment, the state board may designate another day for determining the school corporation's enrollment."

Indiana Code 20-43-4-5 states:

"(a) In determining ADM, each kindergarten pupil who is at least five (5) years of age on the date set forth in subsection (b) shall be counted as:

- (1) one (1) pupil, if the pupil is enrolled in a full-day kindergarten program; or
- (3) one-half (1/2) pupil, if the pupil is enrolled in a half-day kindergarten program.

If a school corporation commences kindergarten in a school year, the ADM of the current and prior calendar years shall be adjusted to reflect the enrollment of the kindergarten pupils. A kindergarten pupil who is not at least five (5) years of age on the date set forth in subsection (b) may not be counted.

(b) The date referred to in subsection (a) is as follows:

- (1) For the state fiscal year beginning July 1, 2018, August 1 of the school year.
- (2) For the state fiscal year beginning July 1, 2019, September 1 of the school year.
- (3) For a state fiscal year beginning on or after July 1, 2020, October 1 of the school year."

Indiana Code 20-43-4-6(a) states:

"In determining ADM, each pupil enrolled in a public school, including a charter school, and a nonpublic school is to be counted on a full-time equivalency basis if the pupil:

- (1) is enrolled in a public school and a nonpublic school;
- (2) has legal settlement in a school corporation; and
- (3) receives instructional services from the school corporation."

Indiana Code 20-43-4-9 states in part:

"(a) . . . this subsection applies to the calculation of state tuition support distributions that are based on the current ADM of a school corporation. The fall count of ADM, as adjusted by the state board under section 2 of this chapter, shall be used to compute state tuition support distributions made in the first six (6) months of the current state fiscal year, and the spring count of ADM, as adjusted by the state board under section 2 of this chapter, shall be used to compute state tuition support distributions made in the second six (6) months of the state fiscal year.

...

(c) If the state board adjusts a count of ADM after a distribution is made under this article, the adjusted count retroactively applies to the amount of state tuition support distributed to a school corporation affected by the adjusted count. The department shall settle any overpayment or underpayment of state tuition support resulting from an adjusted count of ADM on the schedule determined by the department and approved by the budget agency."

Indiana Code 20-43-6-1 states: "Subject to the amount appropriated by the general assembly for state tuition support and IC 20-43-2, the amount that a school corporation is entitled to receive in basic tuition support for a state fiscal year is the amount determined in section 3 of this chapter."

Indiana Code 20-43-6-3 states:

"(a) A school corporation's basic tuition support for a state fiscal year is the amount determined under the applicable provision of this section.

(b) This subsection applies to a school corporation that does not have any students in the school corporation's current ADM for the year for whom, of the instructional services that the students receive from the school corporation, at least fifty percent (50%) is virtual instruction. The school corporation's basic tuition support for a state fiscal year is equal to the result using the following formula:

STEP ONE: Multiply the foundation amount by the school corporation's current ADM.

STEP TWO: Multiply the school corporation's complexity index by:

(A) for the state fiscal year beginning July 1, 2019, three thousand six hundred fifty dollars (\$3,650); and

(B) for the state fiscal year beginning July 1, 2020, three thousand six hundred seventy-five dollars (\$3,675).

STEP THREE: Multiply the STEP TWO amount by the school corporation's current ADM.

STEP FOUR: This STEP applies only to a school corporation that has at least eighteen percent (18%) of its ADM eligible for the English language learners program and that experienced a percentage decrease of at least forty-five percent (45%) in the school corporation's complexity index for the school year ending in 2017 compared to the school corporation's complexity index for the current school year. For such a school corporation determine the result of:

(A) the school corporation's current ADM; multiplied by

(B) one hundred twenty-eight dollars (\$128).

STEP FIVE: Determine the result of:

(A) the STEP ONE amount; plus

(B) the STEP THREE amount; plus

(C) the STEP FOUR amount, if applicable.

(c) This subsection applies to a school corporation that has students in the school corporation's current ADM for the year for whom, of the instructional services that the students receive from the school corporation, at least fifty percent (50%) is virtual instruction. The school corporation's basic tuition support for a state fiscal year is equal to the result using the following formula:

STEP ONE: Determine the total number of students in the school corporation's current ADM for the year for whom, of the instructional services that the students receive from the school corporation, at least fifty percent (50%) is virtual instruction.

STEP TWO: Determine the result of the school corporation's current ADM for the year minus the STEP ONE amount.

STEP THREE: Determine the result of:

(A) the foundation amount; multiplied by

(B) the STEP TWO amount.

STEP FOUR: Determine the result of:

(A) the STEP ONE amount; multiplied by

(B) eighty-five percent (85%) of the foundation amount.

STEP FIVE: Multiply the school corporation's complexity index by:

(A) for the state fiscal year beginning July 1, 2019, three thousand six hundred fifty dollars (\$3,650); and

(B) for the state fiscal year beginning July 1, 2020, three thousand six hundred seventy-five dollars (\$3,675).

STEP SIX: Multiply the STEP FIVE amount by the school corporation's current ADM.

STEP SEVEN: This STEP applies only to a school corporation that has at least eighteen percent (18%) of its ADM eligible for the English language learners program and that experienced a percentage decrease of at least forty-five percent (45%) in the school corporation's complexity index for the school year ending in 2017 compared to the school corporation's complexity index for the current school year. For such a school corporation determine the result of:

(A) the school corporation's current ADM; multiplied by

(B) one hundred twenty-eight dollars (\$128).

STEP EIGHT: Determine the result of:

(A) the STEP THREE amount; plus

(B) the STEP FOUR amount; plus

(C) the STEP SIX amount; plus

(D) the STEP SEVEN amount, if applicable."

Indiana Code 20-43-13-1 states: "This chapter applies to all school corporations, including virtual charter schools."

Indiana Code 20-43-13-4 states:

"(a) Except as provided in subsection (c), the complexity index is the percentage of the school corporation's students who were receiving Supplemental Nutrition Assistance Program (SNAP) benefits, Temporary Assistance for Needy Families (TANF) benefits, or foster care services as of October 1 in the school year ending in the later of: (1) 2019; or (2) the first year of operation of the school corporation.

(b) For a conversion charter school, the percentage determined under this section is the percentage of the sponsor school corporation.

(c) If a school corporation's complexity index is less than the school corporation's complexity index for the preceding state fiscal year, the school corporation's complexity index for the state fiscal year is the greater of:

(1) the school corporation's complexity index for the state fiscal year; or

(2) the school corporation's complexity index for the preceding state fiscal year minus twenty-five thousandths (0.025).

(d) For a participating innovation network charter school, the percentage determined under this section is the greater of the percentage for the:

(1) participating innovation network charter school; or

(2) school corporation with which the participating innovation network charter school has contracted."

Each agency, department, quasi, institution or office should have internal controls in effect to provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of managements' objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and forms of information processing are part of an internal control system.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements, and incorrect decision making. An Agency's control environment consists of the overall attitude, awareness and actions of management and the governing board or commission. This would include establishing and monitoring policies for developing and modifying accounting systems and control procedures. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Organizational Overview--General Guidelines and Policy)

To: Paul Joyce, State Examiner, SBOA

From: Indiana Department of Education

Date: April 6, 2020

Subject: IDOE Official Response to SBOA Report Re IVS

Introduction

On March 13, 2020, IDOE was provided with a preliminary draft of a State Board of Accounts (“SBOA”) report (“the report”) detailing its findings and recommendations as they related to the manner in which tuition support is distributed by the Indiana Department of Education (“IDOE”), both state-wide as well as specifically to Indiana Virtual School and Indiana Virtual Pathways Academy (“the schools”). On that same day, representatives from SBOA met with representatives from IDOE to discuss the report and timelines for response and publication.

On March 16, 2020 SBOA provided IDOE with an amended draft of the report. The amended draft comprised the edits that the two agencies felt were appropriate takeaways from the March 13, 2020 meeting. Accordingly, IDOE was provided until April 6, 2020 to provide an Official Response. The purpose of this document is to formally respond to the SBOA report and to provide additional context on the steps IDOE has taken to fortify our ADM validation procedures.

Response to the Specific Areas within Report

It is necessary that two distinct clarifications be made with respect to the *Internal Controls Deficiencies* section of the Report. Under the *Other Deficiencies* subsection, reference is made to the fact that for several years, the schools reported 100% attendance. Further, it is noted that no independent verification of the legal settlement of students claimed by the schools was conducted by IDOE.

Attendance Review

It must be understood that both Indiana Virtual School and Indiana Virtual Pathways Academy were virtual charter schools. As a result, the manner in which both account for “attendance” is different from the way a traditional brick and mortar school would. Stated plainly, the definition of “attending” is going to be different at a virtual charter school than it would be in a brick and mortar school.

At a traditional brick and mortar school, a student is present or attending if they are physically present at the school in which they receive instruction. However, in a virtual setting, whether a student is in attendance on a particular day is not as clear. Under IC 20-24-7-13(d), charter school authorizers are to establish minimum standards by which charter schools define “engagement and attendance.” One of the primary benefits of a virtual school is the flexibility it provides its students. Some students, for instance, are able to work two days a week and attend school the other three and maintain sufficient progress in their studies. Others may choose to complete coursework over a weekend while participating or attending sporadically throughout a week.

As a result, the state is left with an inconsistent definition of how a virtual charter school is legally supposed to report attendance. Frankly, the requirement that virtual charter schools report attendance in the same manner that traditional brick and mortars do is likely an antiquated concept. Ultimately, the determination of whether a student is present needs to be made at the local level, in consultation with a virtual charter school’s authorizer. IDOE is not in a position to audit or validate each student’s attendance.

That said, it is acknowledged that IDOE would never expect a school that was accurately reporting attendance would report at 100%. Regardless of definitions and whose duty it is to validate the data, 100% attendance is a figure that likely should have raised the attention of state officials. As detailed herein, IDOE has incorporated additional validations and data checks to alert on similar situations in the future.

Legal Settlement Verification

It is also noted in the report that “a validation of students’ legal settlement in Indiana was not performed at the state level.” This, of course, is true. The validation of a student’s legal settlement is done at the local level by the school officials. In the 19-20 school year, there were 1,135,199 students enrolled in public school in Indiana. IDOE relies on local school officials to ensure the students they are claiming for membership have legal settlement in Indiana. Schools record student’s addresses and may, as a course of practice, ask for some form of documentation of the student’s address. Then, based on this work, they can reasonably assure IDOE that the students they are claiming for membership have legal settlement in Indiana.

It cannot be assumed that there is some form of duty at the state level to validate individual students’ legal settlement. With 1.13 million students, it’s unclear how this could be done. Perhaps schools could upload the addresses of their students through a data collection and IDOE could, through a significant application, cross check those addresses to determine they are located in Indiana. But if a school is committing fraud, IDOE would have to rely on the validity of the addresses provided.

Perhaps schools could upload copies of utility bills to verify the addresses they’ve reported. The human hours it would take to review the utility bills is staggering. And,

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again, those utility bills are only as trustworthy as the school officials submitting them. Finally, IDOE officials could physically enter every school in the state and personally determine if each student is an Indiana resident. The additional staff required and fiscal impact to the state is wholly prohibitive.

In the end, IDOE did not validate the legal settlement of the students at the schools. IDOE had no way to do so. Instead, school officials committed fraud and reported that all of their students had legal settlement, when in fact an unknown number did not.

Authorizer Responsibility

The SBOA report does not once mention the role of the authorizer, Daleville Community Schools. Under Indiana law, the ultimate authority and responsibility to oversee and ensure a charter school's compliance with the charter and all state and federal laws and regulations lies with the charter school organizer and the authorizer. IC 20-24-8-3, 20-24-9-3. A charter school's attendance policy, engagement policy, and standards for nonrenewal of a charter must all be established by the charter authorizer and formalized in the charter agreement.

Authorizers, like Daleville, do not merely do this out of an interest to provide students with varied educational opportunities. Authorizers are entitled to an administrative fee in the amount of 3% of the basic tuition support received by their charter schools. IC 20-27-7-4(b). This is an amount contracted between the charter school and the authorizer and is meant to fund the authorizers supervisory duties. There is no authority for IDOE to recover any portion of this administrative fee in situations like this, where the authorizer has failed to satisfy their oversight responsibilities. IDOE has called for greater accountability for charter authorizers, such as a requirement that authorizers review and sign off on the data reports and ADM certifications of their charter schools.

Internal Controls Instituted by IDOE

IDOE requires data submitted for membership checks to pass a series of validations to ensure each student record submitted for tuition support meets basic funding eligibility requirements and represents a single unique student. Furthermore, schools submit to IDOE signed documents attesting to the accuracy of the data submitted on Membership counts in the fall and the spring of the year. The system of data collection and verification underlying all data submission to IDOE relies on a foundation of trust that school data personnel and school officials are doing their best to provide truthful and accurate counts of students when required. IDOE does not have the resources or capacity to conduct even a sampling audit of the 1.13 million student records collected each year to support tuition support allocations. The auditing function of SBOA has been the primary channel for escalating any concerns IDOE observes in data submitted by school corporations.

As a result of the SBOA investigation, the data and school finance teams at IDOE reviewed the most recent certified membership data to understand patterns and anomalies which may point to

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areas of concern. The analysis reviewed the following data points at the school corporation level:

- Number and percent of students counted on the 9/13/19 Membership count with corresponding reports of course enrollments.
- Number and percent of exits from the corporation enrollment with no re-enrollments in Indiana schools (one, two and four weeks after Membership count day).
- Number and percent of students older than 18 and older than 22 for September Membership and February Membership counts.
- Changes in number and percent of students between the September and February counts.
- Verification of Appropriate Signatures for Period 2 Membership Verification.

IDOE continues to advocate through legislative means for greater accountability and oversight for virtual charters schools, particularly as it relates to membership, attendance and enrollment. Based on the outcome of the report, and the internal reviews that are ongoing at IDOE, the department intends to continue to fully live up to its statutory responsibilities in administering tuition support with fidelity and fairness to all schools entitled to it under state law.

The contents of this report were discussed on March 12, 2020, with Tracy K. Brown, Chief Financial Officer; Melissa K. Ambre, Director, Office of School Finance; Kelly B. Wittman, Chief of Staff; Andrew Bernlohr, General Counsel; Jeff Milkey, Director of Data Management; and John B. Keller, Chief Technology Officer.