



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit
Pupil Membership Accounting and Reporting
Process
Michigan Department of Education

Report Number:
313-0400-13

Released:
January 2014

The Michigan Department of Education (MDE) distributes State school aid to local school districts based on full-time equated (FTE) pupil membership counts as reported by the local school districts and audited by the pupil membership auditors. MDE develops and implements policies and procedures pertaining to the accounting and reporting of memberships. During fiscal year 2011-12, MDE distributed State aid to 57 intermediate school districts, 549 local educational authorities, and 256 public school academies to educate 1.6 million pupils.

Audit Objective:

To assess the effectiveness of MDE's efforts to ensure the accuracy of K-12 pupil membership counts used in distributing State school aid funds.

Audit Conclusion:

We concluded that MDE's efforts to ensure the accuracy of K-12 pupil membership counts used in distributing State school aid funds were effective. However, we noted four reportable conditions (Findings 1 through 4).

Reportable Conditions:

MDE did not require pupil membership auditors to verify that pupil membership counts did not include the portion of an FTE that a pupil is taught by a noncertificated teacher (Finding 1).

MDE did not ensure that local school districts and pupil membership auditors properly resolved FTE conflicts and adjusted FTE counts so that no pupil had an FTE that exceeded 1.0 (Finding 2).

MDE did not require pupil membership auditors to perform a review of pupils included in the fall FTE pupil membership count but omitted from the following February FTE pupil membership count (Finding 3).

MDE should improve the guidance in its Pupil Accounting Manual and Pupil Auditing Manual (Finding 4).

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Audit Objective:

To assess the effectiveness of MDE's appeal process to resolve local school districts' disagreements with their audited pupil membership counts.

Audit Conclusion:

We concluded that MDE's appeal process to resolve local school districts' disagreements with their audited pupil membership counts was effective. Our audit report does not include any reportable conditions related to this audit objective.

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Agency Response:

Our audit report contains 4 findings and 5 corresponding recommendations. MDE's preliminary response indicates that it agrees with the recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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January 31, 2014

Mr. Michael P. Flanagan
Superintendent of Public Instruction
Michigan Department of Education
John A. Hannah Building
Lansing, Michigan

Dear Mr. Flanagan:

This is our report on the performance audit of the Pupil Membership Accounting and Reporting Process, Michigan Department of Education.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of abbreviations and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Michigan Department of Education (MDE) was established under the Executive Organization Act of 1965 (Act 380, P.A. 1965). MDE is headed by the elected eight-member State Board of Education established by the Michigan Constitution of 1963. The principal executive officer is the Superintendent of Public Instruction, who is appointed by the Board. Article VIII, Section 3 of the Michigan Constitution vests in the State Board of Education the leadership and general supervision over all public education.

As a result of school finance reform, intermediate school districts (ISDs) and local school districts* receive a substantial amount of their operating revenue from the State through the School Aid Fund*. During fiscal year 2011-12, MDE distributed \$11.0 billion (\$8,019 per full-time equated* [FTE] pupil membership) for K-12* pupils* as prescribed by the State School Aid Act* of 1979, as amended. These distributions were made to 57 ISDs, 549 local educational authorities, and 256 public school academies* to educate 1.6 million pupils during fiscal year 2011-12.

MDE distributes State school aid to local school districts based on FTE pupil membership counts* as reported by the local school districts and audited by the pupil membership auditors*. MDE's Office of Audits develops and implements policies and procedures pertaining to the accounting and reporting of memberships. The required policies and procedures are contained in the Pupil Accounting Manual and Pupil Auditing Manual approved and published by MDE.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Pupil Membership Accounting and Reporting Process, Michigan Department of Education (MDE), had the following audit objectives:

1. To assess the effectiveness* of MDE's efforts to ensure the accuracy of K-12 pupil membership counts used in distributing State school aid funds.
2. To assess the effectiveness of MDE's appeal process to resolve local school districts' disagreements with their audited pupil membership counts.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan Department of Education related to the pupil membership accounting and reporting and appeal processes. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period September 1, 2010 through March 31, 2013.

Audit Methodology

We conducted a preliminary review of the pupil membership accounting and reporting process to formulate a basis for establishing our audit objectives and defining our audit scope and methodology. As part of our preliminary review, we interviewed MDE and intermediate school district personnel regarding their roles in the pupil membership accounting and reporting process. Also, our preliminary review included reviewing the State School Aid Act, the Pupil Accounting Manual and Pupil Auditing Manual, applicable laws, regulations, policies and procedures, and other pertinent information.

* See glossary at end of report for definition.

To accomplish our first objective, we reviewed MDE's oversight of pupil membership auditors through an examination of randomly selected quality control reviews conducted by MDE to determine that pupil membership auditor procedures provide assurance that K-12 pupil membership counts are complete and accurate. Also, we evaluated MDE's provision of technical assistance and training to local school districts and pupil membership auditors. In addition, we evaluated MDE's pupil membership accounting and reporting process related to virtual learning academies, virtual learning programs, and seat time waivers to ensure compliance with select State School Aid Act reporting requirements. Further, we evaluated MDE's efforts to analyze available data to identify trends and issues within pupil membership counts.

To accomplish our second objective, we reviewed MDE's process to resolve local school districts' pupil membership audit appeals*. MDE received 19 appeals during the period September 2010 through June 2013 and had completed 16 appeals during our audit period. We randomly selected 4 of the completed appeals to evaluate MDE's timeliness, consistency, and compliance with the State School Aid Act and other applicable laws and regulations in rendering its appeal decisions.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 4 findings and 5 corresponding recommendations. MDE's preliminary response indicates that it agrees with the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require MDE to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office.

* See glossary at end of report for definition.

Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Pupil Membership Reporting and Auditing Process, Michigan Department of Education (31-400-04), in April 2005. MDE complied with 3 of the 5 prior audit recommendations. We repeated 1 prior audit recommendation in Finding 3 of this audit report and rewrote the other prior audit recommendation in Finding 4 of this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS TO ENSURE THE ACCURACY OF K-12 PUPIL MEMBERSHIP COUNTS USED IN DISTRIBUTING STATE SCHOOL AID FUNDS

COMMENT

Audit Objective: To assess the effectiveness of the Michigan Department of Education's (MDE's) efforts to ensure the accuracy of K-12 pupil membership counts used in distributing State school aid funds.

Audit Conclusion: We concluded that MDE's efforts to ensure the accuracy of K-12 pupil membership counts used in distributing State school aid funds were effective.

Our audit conclusion was based on our audit efforts as described in the audit scope and audit methodology sections and the resulting reportable conditions* noted in the comments, findings, recommendations, and agency preliminary responses section.

We noted four reportable conditions related to noncertificated teachers, full-time equated (FTE) conflict* resolution, additional pupil membership review, and Pupil Accounting Manual and Pupil Auditing Manual guidance (Findings 1 through 4). In our professional judgment, these matters are less severe than a material condition but represent opportunities for improvement.

In reaching our conclusion, we considered the significance of the reportable conditions in relation to the overall pupil counts. In addition, we considered MDE's oversight of pupil membership auditors, the technical assistance and training to local school districts and pupil membership auditors, and MDE's efforts to analyze available data to identify trends and issues within pupil membership counts. We believe that the results of our audit efforts provide a reasonable basis for our audit conclusion for this audit objective.

FINDING

1. Noncertificated Teachers

MDE did not require pupil membership auditors to verify that pupil membership counts did not include the portion of an FTE that a pupil is taught by a

* See glossary at end of report for definition.

noncertificated teacher. As a result, MDE may have inappropriately distributed \$12.3 million in State aid basic foundation allowance* payments.

Section 388.1606(8) of the *Michigan Compiled Laws* defines "Pupils in grades K to 12 actually enrolled and in regular daily attendance" as pupils in grades K-12 in attendance and receiving instruction in all classes for which they are enrolled on the pupil membership count day* or the supplemental count day, as applicable. Also, this Section defines a "class" as a period of time in one day when pupils and a certificated teacher are together and instruction is taking place. Consequently, in those cases in which pupils are receiving instruction from a noncertificated teacher, the class period should not be included in the pupil membership count.

MDE's Office of Professional Preparation Services identified a total of 73 teachers during school years 2011-12 and 2012-13 that were noncertificated for the entire school year* and provided instruction to K-12 pupils. However, the information regarding the noncertificated teachers was not provided to the pupil membership auditors so that they could adjust the schools' FTE count as a part of their audit. MDE's Office of State Aid and School Finance did not adjust the schools' FTE counts because it relies on the audited counts. We estimate a possible overpayment of school aid of \$12.3 million based on the Statewide average class size of 21 FTE pupil memberships times the State aid basic foundation allowance of \$8,019 times the 73 teachers.

RECOMMENDATIONS

We recommend that MDE require pupil membership auditors to verify that pupil membership counts do not include the portion of an FTE that a pupil is taught by a noncertificated teacher.

We also recommend that MDE disclose the noncertificated teachers to the pupil membership auditors.

AGENCY PRELIMINARY RESPONSE

MDE agrees with the recommendations. MDE currently requires pupil membership auditors to verify the certification of teachers for most nonconventional programs but not for conventional pupils. MDE informed us that it will require pupil membership auditors to verify the certification of teachers for all pupils.

* See glossary at end of report for definition.

MDE informed us that the most recent guidance to pupil membership auditors regarding the impact on State aid for the use of a noncertificated teacher is based solely on the literal interpretation of Section 163 of the State School Aid Act (i.e., Section 388.1763 of the *Michigan Compiled Laws*). Section 163 says that a district employing teachers not legally certificated shall have deducted the sum equal to the amount paid the teacher for the period of noncertificated employment.

After considerable discussion between MDE administrators and staff from the Department of Attorney General, MDE acknowledges that State School Aid Act Section 6(8) (i.e., Section 388.1606(8) of the *Michigan Compiled Laws*) also applies. Section 6(8) requires pupil membership FTE to include only time when pupils are together with a certificated teacher and instruction is taking place. In addition to applying the penalties required by Section 163, MDE informed us that it will also require the FTE impact imposed by Section 6(8) of the State School Aid Act.

FINDING

2. FTE Conflict Resolution

MDE did not ensure that local school districts and pupil membership auditors properly resolved FTE conflicts and adjusted FTE counts so that no pupil had an FTE that exceeded 1.0. As a result, MDE may have distributed school aid funding for pupils with more than 1.0 FTE.

Section 388.1606(4)(a) of the *Michigan Compiled Laws* states that an individual pupil shall not be counted for more than a total of 1.0 FTE membership.

During each count period, the Department of Technology, Management, and Budget's Center for Educational Performance and Information (CEPI) runs FTE conflict reports from the Michigan Student Data System (MSDS) and issues the reports to MDE and the affected school districts. The report includes those pupils with more than 1.0 FTE at an individual school district as well as pupils reported by more than one school district. The conflict reports for the period September 2010 through October 2012 identified 2,442 pupils who had an FTE exceeding 1.0. These pupils accounted for a total of 4,477 FTEs. MDE requires school districts to resolve the FTE conflicts and adjust the FTE count before the seventh week

following the count day. If the school district does not resolve the FTE conflict within the required time frame, MDE requires pupil membership auditors to work with the local school districts to resolve the FTE conflict and adjust the K-12 pupil membership counts to remove the individual pupils' FTEs that exceed 1.0. However, pupil membership auditors process FTE conflict adjustments in total by district rather than on a per-pupil basis. Because the FTE conflicts are corrected in total by district, the MSDS pupil membership data would still reflect FTEs that exceed 1.0. In our review of the conflict resolution process, we noted that there was no documentation that MDE confirmed that the FTE conflicts had been resolved and that the FTE counts had been appropriately adjusted.

MDE informed us that it did not ensure that FTE conflicts identified within MSDS were resolved and K-12 pupil membership counts were properly adjusted because MDE relied on the pupil membership auditors to resolve those conflicts.

RECOMMENDATION

We recommend that MDE ensure that local school districts and pupil membership auditors properly resolve FTE conflicts and adjust FTE counts so that no pupil has an FTE that exceeds 1.0.

AGENCY PRELIMINARY RESPONSE

MDE agrees with the recommendation. MDE reiterated that it has also been the established practice of pupil membership auditors to resolve FTE conflicts and make associated FTE adjustments. However, when pupil membership auditors make the associated adjustments in total by district rather than on a per-pupil basis, it is impossible for MDE to determine the resolution of the identified FTE conflicts. After receiving the draft finding, MDE contacted the pupil membership auditors to follow up on the 2,442 pupils identified on the FTE conflict reports. The pupil membership auditors reported to MDE that only 5 pupils remained with an FTE exceeding 1.0. MDE intends to require pupil membership auditors to make FTE adjustments on a per-pupil basis, if at all possible, to allow MDE to ensure the resolution of identified FTE conflicts.

FINDING

3. Additional Pupil Membership Review

MDE did not require pupil membership auditors to perform a review of pupils included in the fall FTE pupil membership count but omitted from the following February FTE pupil membership count. As a result, MDE had limited assurance that these pupils were properly included in the fall FTE pupil membership count and appropriately funded.

MDE's Pupil Auditing Manual requires pupil membership auditors to perform specific audit procedures for categories of pupil memberships determined to be of higher risk than a conventional pupil membership. We believe that pupils included in the fall FTE pupil membership count but not included in the February FTE pupil membership count are a higher risk because 90% of the school aid funding is based on the fall count.

We noted that, on a Statewide average for school years 2010-11, 2011-12, and 2012-13, the Statewide fall FTE pupil membership counts consistently exceeded the Statewide February FTE pupil membership counts in the same school year by 0.8% annually (14,290 FTE pupils). Although the percentage and actual count appear to be insignificant, the impact is large on a monetary basis. With a State aid basic foundation allowance of \$8,019, for every 1,000 FTE pupil memberships in error, the overpayments could be over \$8 million. MDE had made no comparisons of pupil membership count data between the fall count and the following February count to identify this trend and follow up on the reasons for the decreases.

We noted a similar condition in our prior audit. MDE disagreed with the prior audit recommendation but agreed in concept with the prior audit finding. MDE indicated that, rather than require pupil membership auditors to conduct a separate review, CEPI would develop a data warehouse to facilitate the analysis of FTE decreases to determine the reason for the pupils' exits and the risk of overstatement of the fall counts. MDE also indicated that it would design cost-beneficial audit tests to address this risk. We determined that CEPI implemented a new pupil database to assist the pupil membership auditors in FTE analysis. However, MDE had not required the pupil membership auditors to analyze the FTE decreases. MDE provided us with an example of one pupil membership auditor's analysis of pupil

additions and deletions that we determined would be a useful analysis for all pupil membership auditors to incorporate into their reviews.

RECOMMENDATION

We again recommend that MDE require pupil membership auditors to perform a review of pupils included in the fall FTE pupil membership count but omitted from the following February FTE pupil membership count.

AGENCY PRELIMINARY RESPONSE

MDE agrees with the recommendation. MDE informed us that the Office of State Aid and School Finance reviews membership changes between payments, as well as between counts. If the cause of a change in membership is not readily known, the Office of State Aid and School Finance contacts the affected district for a response. In addition, although not identified as a step in the Pupil Auditing Manual, MDE informed us that it has been the established practice of pupil membership auditors to review drop/add lists that are reported by the districts, such as the one provided in the previously cited example. MDE informed us that it will revise the Pupil Auditing Manual to require pupil membership auditors to document their reviews.

FINDING

4. Pupil Accounting Manual and Pupil Auditing Manual Guidance

MDE should improve the guidance in its Pupil Accounting Manual and Pupil Auditing Manual. Additional pupil accounting and auditing guidance would assist local school district staff and pupil membership auditors in ensuring accurate pupil membership counts that generate State school aid funding payments to local school districts.

MDE developed its Pupil Accounting Manual and Pupil Auditing Manual to guide intermediate school districts (ISDs) and local school districts in the accounting and reporting of K-12 pupil membership counts. Section 388.1618(8) of the *Michigan Compiled Laws* requires MDE to review its Pupil Accounting Manual and Pupil Auditing Manual at least annually and to periodically update those manuals to reflect changes in laws related to pupil accounting and pupil auditing.

Our review of MDE's 2012-13 Pupil Accounting Manual and the Pupil Auditing Manual, updated February 2012, noted:

- a. MDE limited its guidance on fraud inquiries to include only the inquiry of teachers in its Pupil Auditing Manual. The Pupil Auditing Manual does not require pupil membership auditors to make inquiries of other local school district or ISD personnel responsible for the collection and summarization of attendance records and the preparation and submission of K-12 pupil membership counts. Also, the Pupil Auditing Manual does not require pupil membership auditors to conduct fraud inquiries in person.

An auditing industry standard instructs auditors to conduct fraud inquiries with management and others within the entity that may be able to provide information that would be helpful to the auditor in identifying risks for fraud. Also, the auditing industry standard recommends that auditors conduct fraud inquiries in person so that the auditor can observe body movements, facial gestures, or other forms of nonverbal communication because they are primarily the result of a subconscious reaction to events that could provide an accurate portrayal of the truthfulness of a person's response. Although auditing industry standards are not directly applicable to pupil membership auditors, MDE's adoption of this auditing industry standard may assist pupil membership auditors in the detection of fraudulent pupil membership reporting.

MDE informed us that it agrees that in-person inquiries with various personnel involved with the attendance and the K-12 pupil membership reporting process would help pupil membership auditors identify questionable and fraudulent K-12 pupil membership reporting. However, MDE informed us that it did not include these requirements in its Pupil Auditing Manual because pupil membership auditors did not agree with the potential benefits of such requirements.

- b. MDE did not include guidance for cyber schools* in its Pupil Accounting Manual and Pupil Auditing Manual.

* See glossary at end of report for definition.

Beginning in fall 2010, two cyber schools provided instruction to K-12 pupils. During our audit period, MDE provided limited guidance through meetings, e-mails, and telephone conversations with the cyber school personnel, pupil membership auditors, and other individuals responsible for the administration and oversight of cyber schools. Inclusion of the requirements and guidance in the Pupil Accounting Manual and Pupil Auditing Manual would ensure that the guidance is consistent and available to all current and future cyber school personnel and pupil membership auditors.

One ISD informed us that MDE did not include cyber schools in its Pupil Accounting Manual and Pupil Auditing Manual because there were only two cyber schools operating in the State. In August 2013, MDE issued an update to the Pupil Accounting Manual to include the requirements and to provide guidance in the audit of cyber schools' FTE pupil membership counts.

RECOMMENDATION

We recommend that MDE improve the guidance in its Pupil Accounting Manual and Pupil Auditing Manual.

AGENCY PRELIMINARY RESPONSE

MDE agrees with the recommendation. MDE informed us that it will revise the Pupil Auditing Manual to require that pupil membership auditors, on a sample basis, conduct in-person inquiries of teachers and various pupil accounting personnel involved with the attendance and the K-12 pupil membership reporting process regarding questionable and fraudulent K-12 pupil membership reporting.

EFFECTIVENESS OF THE APPEAL PROCESS TO RESOLVE LOCAL SCHOOL DISTRICTS' DISAGREEMENTS WITH THEIR AUDITED PUPIL MEMBERSHIP COUNTS

COMMENT

Background: The appeal of audited K-12 pupil membership counts is a two-step process. First, if the local school district cannot resolve its disagreement with its auditors, the local school district may appeal the pupil membership audit to the

director of MDE's Office of Audits. If the local school district does not agree with the director of the Office of Audits' decision, the local school district may appeal the decision to the Superintendent of Public Instruction. That appeal will be assigned to MDE's Office of Administrative Law, which acts on behalf of the Superintendent of Public Instruction.

Audit Objective: To assess the effectiveness of MDE's appeal process to resolve local school districts' disagreements with their audited pupil membership counts.

Audit Conclusion: **We concluded that MDE's appeal process to resolve local school districts' disagreements with their audited pupil membership counts was effective.**

Our audit conclusion was based on our audit efforts as described in the audit scope and audit methodology sections. Our audit report does not include any reportable conditions related to this audit objective. We believe that the results of our audit efforts provide a reasonable basis for our audit conclusion for this audit objective.

GLOSSARY

Glossary of Abbreviations and Terms

CEPI	Center for Educational Performance and Information.
count day	An official established day used in determining pupil membership (the number of FTE pupils) reported for State school aid.
cyber school	A school of excellence that has been issued a contract to be organized and operated as a cyber school and that provides full-time instruction to pupils through on-line learning or otherwise on a computer or other technology, which instruction and learning may be remote from a school facility.
effectiveness	Success in achieving mission and goals.
foundation allowance	The amount legislatively designated for each school district for each reported pupil. Foundation allowance funds are to be used for the general operating expenses of a school district. The starting point for the foundation allowance is the eligible base revenue that each school district received per pupil in school year 1993-94. This amount is then increased each year by an amount specified in the annual amendments to the State School Aid Act of 1979.
FTE conflict	When two different pupils have the same unique identification code or when an individual pupil reported by multiple local school districts has a total FTE exceeding 1.0.
full-time equated (FTE)	An individual pupil's pro rata share of membership. In no case may a pupil generate more than 1.0 FTE.
ISD	intermediate school district.
K-12	kindergarten through grade 12.

local school district	A local educational authority or a public school academy.
MDE	Michigan Department of Education.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
public school academy	A public school that is authorized under contract by an authorizing body in accordance with Part 6A of the Revised School Code. A public school academy, also commonly referred to as a "charter school," is a body corporate and a governmental agency organized and administered under the direction of a board of directors.
pupil	A K-12 student or an alternative education participant.
pupil membership	A person in membership in an ISD or a local school district providing instruction to pupils in grades K through 12, special education, or alternative education.
pupil membership audit appeal	A course of action available when a local school district disputes the findings of a pupil membership auditor. If a dispute occurs, the local school district may appeal the audit findings to MDE. If the dispute remains unresolved, the Superintendent of Public Instruction is ultimately responsible for the final decision.
pupil membership auditors	ISD auditors or certified public accounting firms.

pupil membership counts	The number of FTE pupils actually enrolled and in regular attendance on the official count day in accordance with the State School Aid Act and administrative rules. In no circumstances may the reported membership for an individual pupil exceed 1.0 FTE.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
School Aid Fund	The fund that furnishes State school aid to school districts and provides financing for the Public School Employees' Retirement System.
school district	An ISD or a local school district.
school year	July 1 through June 30.
State School Aid Act	The legislation that authorizes funding to ISDs and local school districts and outlines requirements for determining pupil membership counts.

