

Office of the Auditor General  
Follow-Up Report on Prior Audit Recommendations

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**Virtual Learning in Cyber Schools**  
Michigan Department of Education

October 2024

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The auditor general may make investigations pertinent to the conduct of audits.

*Article IV, Section 53 of the Michigan Constitution*

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### *Follow-Up Report*

### *Virtual Learning in Cyber Schools*

### *Michigan Department of Education (MDE)*

**Report Number:**  
**313-0225-18F**

**Released:**  
**October 2024**

We conducted this follow-up to determine whether MDE had taken appropriate corrective measures in response to the two material conditions noted in our September 2021 audit report.

Prior Audit Information	Follow-Up Results		
	Conclusion	Finding	Agency Preliminary Response
Finding 1 - Material condition  Improvement needed in assurance and verification process to identify and remediate when authorizers are not effectively monitoring cyber schools.  Agency partially agreed.	Substantially complied	Not applicable.	
Finding 2 - Material condition  Improvement needed to demonstrate cyber school students' participation in courses and for the school year.  Agency agreed.	Complied	Not applicable.	

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**Doug A. Ringler, CPA, CIA**  
Auditor General

October 24, 2024

Dr. Michael F. Rice  
Chair, ex officio, State Board of Education  
Superintendent of Public Instruction  
Michigan Department of Education  
John A. Hannah Building  
Lansing, Michigan

Dr. Rice:

This is our follow-up report on the two material conditions (Findings 1 and 2) and two corresponding recommendations reported in the performance audit of Virtual Learning in Cyber Schools, Michigan Department of Education. That audit report was issued and distributed in September 2021. Additional copies are available on request or at [audgen.michigan.gov](http://audgen.michigan.gov).

We appreciate the courtesy and cooperation extended to us during our follow-up. If you have any questions, please call me or Laura J. Hirst, CPA, Deputy Auditor General.

Sincerely,

Doug Ringler  
Auditor General



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## INTRODUCTION, PURPOSE OF FOLLOW-UP, AND DESCRIPTION

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### INTRODUCTION

This report contains the results of our follow-up of the two material conditions\* (Findings 1 and 2) and two corresponding recommendations reported in our performance audit\* of Virtual Learning in Cyber Schools, Michigan Department of Education (MDE), issued in September 2021.

### PURPOSE OF FOLLOW-UP

To determine whether MDE had taken appropriate corrective measures to address our corresponding recommendations.

### DESCRIPTION

MDE was established under the Executive Organization Act of 1965 (Public Act 380 of 1965). MDE is headed by the elected eight-member State Board of Education established by the Michigan Constitution. 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.

State law mandates MDE, by authority of the State Board of Education, require each local school district, public school academy\* (PSA), and intermediate school district board and the officers of those boards to observe the laws related to schools, including those applicable to virtual learning (also known as online learning\*) provided by cyber schools\*.

MDE's PSA Unit is organizationally located within the Office of Educational Supports. Its mission states that through rigorous oversight\* and technical assistance, the PSA Unit provides leadership in the development and maintenance of high-quality school options to better meet the educational needs of Michigan communities, now and in the future. The PSA Unit has 5 staff members who provide oversight and technical assistance to 43 authorizing bodies\* (authorizers) and 286 PSA districts, including 16 cyber schools.

PSA Unit staff conduct periodic site visits to authorizers to carry out MDE's voluntary assurance and verification (A&V) process. The PSA Unit designed its A&V site visits to:

- Ensure authorizers had documented evidence of their monitoring efforts to evaluate cyber schools' compliance with select statutory requirements.
- Provide technical assistance to authorizers.
- Promote communication between authorizers and MDE.

\* See glossary at end of report for definition.



The A&V process also includes the authorizer's completion of a self-assessment checklist and the PSA Unit's examination of the authorizer's policies and procedures to evaluate the completeness of the authorizer's monitoring processes.

MDE's pupil membership audit process includes the verification of teachers' certification and students' enrollment, attendance, and participation in a school and/or courses for each official school year count day\* for a sample of students. MDE relies on the pupil membership audit process as one of its primary mechanisms for monitoring school districts' compliance with State laws and MDE policies, including cyber schools. MDE provides guidance for this process via its Pupil Accounting Manual (PAM) and Pupil Membership Auditing Manual (PMAM).

For the 2022-23 school year, cyber schools reported to the Center for Educational Performance and Information the enrollment of over 27,000 students, which is an increase of approximately 62% from the 2018-19 school year information included in our September 2021 report. During the 2022-23 school year, cyber school students represented approximately 2% of all Michigan public school students.

\* See glossary at end of report for definition.

# PRIOR AUDIT FINDINGS AND RECOMMENDATIONS, AGENCY PLAN TO COMPLY, AND FOLLOW-UP CONCLUSIONS

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## FINDING 1

Audit Finding Classification: Material condition.

Summary of the September 2021 Finding:

MDE should improve its authorizer A&V process to better identify and remediate when authorizers are not effectively monitoring their cyber schools' compliance with applicable laws and regulations.

The following citations provide MDE the requisite authority and responsibility to address when authorizers are not sufficiently monitoring the cyber schools:

- Section 380.552(9) of the *Michigan Compiled Laws* mandates authorizers to engage in "appropriate continuing oversight" of a school of excellence\* (SOE) and provides the Superintendent of Public Instruction (SOPI) the ability to suspend the power of an authorizing body to issue new contracts\* to organize and operate SOEs if the SOPI finds an authorizing body is not engaging in appropriate continuing oversight of 1 or more SOEs under contract. Current cyber legislation defines a cyber school as an SOE.
- Article VIII, Section 3 of the Michigan Constitution provides MDE with the responsibility for general supervision and leadership responsibility over all public education.
- Section 380.1281(1) states MDE shall require each PSA board to observe the laws relating to schools.
- Section 380.502(4), which prescribes the authorizers' responsibility for overseeing compliance of PSAs, specifically states the Section does not relieve any other government entity of its enforcement or supervisory responsibility.

MDE's oversight of cyber school authorizers primarily consisted of periodic, voluntary, on-site A&V visits with the authorizers. MDE focused its assessment on 16 monitoring processes that included but were not limited to ensuring cyber schools complied with requirements related to quality of learning, governance structure, and financial accountability. At the conclusion of each on-site visit, MDE provided the authorizers with feedback reports including recommendations for the authorizers to improve their monitoring efforts.

\* See glossary at end of report for definition.

We noted:

- a. Authorizers had not implemented MDE's recommendations to improve monitoring, and we identified related noncompliance in the cyber schools.

MDE could improve its A&V process by:

- Modifying the A&V criteria as it relates to performing additional procedures to evaluate the effectiveness\* of the authorizers' monitoring to detect and mitigate noncompliance in cyber schools. Also, requiring authorizers to provide results to MDE of their monitoring efforts and requiring evidence the authorizers had ensured their cyber schools had corrected any identified noncompliance could improve the A&V process.
  - Requiring authorizers to participate in formal feedback from the A&V process and develop plans to timely address MDE's recommendations for improvement and ensure sufficient authorizer monitoring and cyber school compliance with applicable laws and regulations.
- b. MDE had not established benchmarks to assess the sufficiency of the authorizers' overall implementation of monitoring procedures or defined "appropriate continuing oversight." Establishing benchmarks would help MDE develop a grading scale to identify when remedial action is necessary.
  - c. MDE should consider publishing guidance, including the A&V checklist, to help the authorizers develop monitoring procedures for cyber schools that align with MDE's expectations and improve the likelihood of the authorizers' detection of cyber schools' noncompliance with applicable laws and regulations. In addition, MDE could consider a risk-based approach in conducting its A&V visits that could impact the frequency and the comprehensiveness of the criteria reviewed.

Recommendation Reported in September 2021:

We recommended that MDE improve its authorizer A&V process to better identify and remediate when authorizers are not effectively monitoring their cyber schools' compliance with applicable laws and regulations.

\* See glossary at end of report for definition.

## **AGENCY PLAN TO COMPLY\***

MDE's October 29, 2021 final corrective action plan (CAP) indicated it partially agreed and would comply with some of the recommendation. MDE's CAP indicated it would:

- Enhance the current A&V process to include all cyber school law requirements and to address the increased number of local educational agency authorizers who have authorized cyber schools.
- Adjust its A&V schedule, beginning in the 2022-23 school year, based on an authorizer's experience and visit authorizers of cyber academies more frequently based on the number of recommendations in an A&V visit.
- Add a formal feedback component to discuss the findings to its A&V process identifying the authorizer's individual level of oversight. In addition, MDE would include a follow-up/feedback meeting with each cyber authorizer two weeks after the final report has been provided from MDE to the authorizer. If 50% or more of the A&V components are identified as "under development" by MDE staff, MDE may request authorizers provide written feedback on any outstanding concerns or processes that were not observed.
- Align A&V visit of council member authorizers working with cyber academies to the authorizer's accreditation self-assessment and include additional questions during the A&V visit to address cyber law.
- Require local educational agency authorizers who authorize only a single cyber school to answer the A&V questions as they relate to the oversight of the cyber academy.

## **FOLLOW-UP CONCLUSION**

Substantially complied.

Our review noted MDE made improvements to its authorizer A&V process to better identify and remediate when authorizers are not effectively monitoring their cyber schools' compliance with applicable laws and regulations.

a. MDE improved its A&V process by:

- Modifying the A&V criteria checklists to include procedures to evaluate authorizers' monitoring of noncompliance with laws applicable to cyber schools.
- Reviewing documented evidence of the authorizers' monitoring of cyber schools during A&V site visits.

*\* See glossary at end of report for definition.*

- Developing a formal feedback process to help ensure authorizers develop plans to timely address MDE's recommendations.

We reviewed documentation for the two A&V site visits MDE performed for the 2022-23 school year after implementation of the planned improvements. We noted the authorizers provided MDE with supporting documentation to demonstrate the monitoring procedures and processes were in place and MDE recommended improvements needed in the authorizers' monitoring of their cyber schools. As part of the feedback process, the authorizers developed procedures and processes to address MDE's recommendations.

- b. MDE revised its A&V report summary to include a section for PSA Unit staff to determine and document whether the authorizer was engaging in appropriate continuing oversight. In addition, for instances in which MDE determines 50% or more of an authorizer's A&V indicators are under development, MDE will schedule a follow-up site visit within six months to determine whether appropriate remedial action has been taken.

For the 2 A&V site visits we reviewed, the report summary included MDE's determination of the authorizers' engagement in appropriate continuing oversight. Follow-up site visits were not indicated in these 2 instances because less than 50% of the A&V indicators were under development for the authorizers.

- c. MDE furnished resources for authorizers on its website and developed a practice to provide new authorizers its A&V checklist prior to conducting a site visit; however, MDE had not yet made the updated A&V checklist available via its website at the time of our follow-up review.

MDE also modified its A&V site visit plan approach based on the type and experience of the authorizer and planned site visits for accredited authorizers every 5 to 6 years and non-accredited authorizers every 3 to 4 years.

## FINDING 2

Audit Finding Classification: Material condition.

Summary of the September 2021 Finding:

MDE did not always ensure cyber schools sufficiently demonstrated compliance with attendance and participation requirements for students. Cyber student attendance and participation positively impacts student learning outcomes and success.

The State School Aid Act indicates a student's participation in the cyber school's educational program is considered regular daily attendance and shall be considered as membership for calculation of the cyber school's foundation allowance. MDE's PAM outlined specific requirements for cyber school student attendance and participation for the 2016-17 school year, including:

- Be enrolled and attend on count day or supplemental count day.
- Participate in all courses.
- Satisfy attendance requirements by one or more of the following:
  - Live lecture attendance.
  - Log-in to access a lesson or activity documented.
  - Conversation documented between the student and teacher.
  - Activity or work documented between the learning coach and student.
  - Completion of an alternate form of attendance agreed upon by the cyber school and pupil auditor\*.

In addition, State law mandated cyber schools for the 2016-17 school year make educational services available to students for a minimum of 1,098 hours and ensure each student participates in the educational program for at least 1,098 hours during a school year. MDE's school year 2016-17 PAM included this instructional time requirement for cyber schools and prescribed methods for cyber schools to calculate the hours they made educational services available to the students.

We noted:

- a. Cyber schools did not provide documentation to support participation for 145 (52%) of 278 students in one or more of their scheduled courses.

\* See glossary at end of report for definition.

- b. Cyber schools did not maintain sufficient documentation to demonstrate students met the 1,098-hour participation requirement.

Recommendation Reported in September 2021:

We recommended that MDE ensure cyber schools sufficiently demonstrate compliance with attendance and participation requirements for students.

**AGENCY PLAN TO COMPLY**

MDE's October 29, 2021 CAP indicated it agreed with the finding and would comply with the recommendations. In addition, the CAP indicated MDE would:

- Make additional improvements to PAM and PMAM to improve guidance to cyber schools and pupil auditors regarding cyber school attendance and participation.
- Require cyber schools to provide the pupil auditor with sample reports of the tracking method used to satisfy Sections 380.551 and 380.553a of the *Michigan Compiled Laws* for review during the count periods, in addition to full documentation required to satisfy Sections 380.551 and 388.1701 as the law currently stands as written related to State aid at the end of the school year.
- Include criteria in PAM and PMAM for the cyber school to ensure each pupil participates in each scheduled course on count day to satisfy the participation requirement.

**FOLLOW-UP CONCLUSION**

Complied for part a. Part b. is no longer applicable.

Our review noted:

- a. Complied. MDE modified its PAM and PMAM to improve guidance to cyber schools and pupil auditors on documenting and verifying cyber school attendance and participation.

We judgmentally selected 4 cyber schools and randomly sampled 25 students' pupil auditors reviewed for each selected cyber school's pupil membership. We reviewed the pupil auditors' support and noted documented attendance and participation for all applicable courses on the students' schedules for 98 (98%) of the 100 sampled students counted for the cyber schools' pupil membership.

- b. No longer applicable. Effective July 1, 2021, Public Act 144 of 2022 added Section 8c to the School Aid Act, precluding MDE from requiring a cyber school to ensure each enrolled student participated in all hours of educational services the cyber school made available to the pupil.

## FOLLOW-UP METHODOLOGY AND PERIOD

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### METHODOLOGY

We conducted interviews with MDE management and staff, reviewed MDE's CAP and updated policies and procedures, reviewed relevant documentation and/or other evidence, and examined laws relevant to cyber schools and cyber school authorizers. Specifically, for:

- Finding 1:
  - Interviewed MDE staff and obtained an understanding of MDE's A&V process for monitoring cyber school authorizers.
  - Obtained and reviewed MDE's A&V site visit plan of authorizers to verify MDE implemented a risk-based approach.
  - Verified MDE modified its A&V criteria checklists to include laws applicable to cyber schools.
  - Obtained and reviewed MDE's documentation for the two A&V site visits conducted after implementation of its corrective action to evaluate changes made to the A&V process.  
We:
    - Reviewed evidence MDE obtained from authorizers during the A&V site visit to support MDE had verified the authorizers' monitoring procedures were in place.
    - Reviewed documentation MDE obtained from authorizers to support the authorizer had developed procedures to timely address MDE's recommendations for improved monitoring.
    - Verified MDE's A&V report summary included MDE's determination of the authorizers' engagement in appropriate continuing oversight.
  - Reviewed MDE's website to verify it provided resources to help authorizers develop monitoring procedures aligning with MDE's expectations.
- Finding 2:
  - Interviewed MDE staff and obtained an understanding of requirements for documenting cyber school student attendance and participation.



- Reviewed MDE's PAM and PMAM to identify improvements made to the guidance provided to pupil auditors regarding cyber school attendance and participation.
- Judgmentally selected 4 of 15 cyber schools as of June 30, 2023 and randomly selected 25 students reviewed by pupil auditors for each selected cyber school. We examined student schedules, log-in reports, and attendance records obtained by pupil auditors to determine whether pupil auditors verified the cyber schools' students met attendance and participation requirements.
- Reviewed applicable legislative changes regarding student attendance and participation requirements for cyber schools.

**PERIOD**

Our follow-up generally covered July 2022 through July 2024.

## GLOSSARY OF ABBREVIATIONS AND TERMS

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<b>A&amp;V</b>	assurance and verification.
<b>agency plan to comply</b>	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and to submit the plan to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.
<b>authorizing body (authorizers)</b>	Any one of the following that issues a contract for a cyber school: the board of a local school district, the board of an intermediate school district, the board of a community college, the governing board of a State public university, or two or more public agencies specifically defined within Section 380.551(2)(v) of the <i>Michigan Compiled Laws</i> .
<b>CAP</b>	final corrective action plan.
<b>contract</b>	The executive act taken by an authorizing body that evidences the authorization of a PSA and establishes, subject to the constitutional powers of the State Board of Education and applicable law, the written instrument executed by an authorizing body conferring certain rights, franchises, privileges, and obligations on a PSA, as provided by this part, and confirming the status of a PSA as a public school in Michigan.
<b>count day</b>	Two official designated days each school year occurring on the first Wednesday in October and second Wednesday in February to establish the official student membership count for school districts' State school aid funding.
<b>cyber school</b>	A school of excellence established and issued a contract to be organized and operated as a cyber school that provides full-time instruction to pupils through online learning or otherwise on a computer or other technology, which instruction and learning may be remote from a school facility.
<b>effectiveness</b>	Success in achieving mission and goals.

<b>material condition</b>	A matter, in the auditor's judgment, which is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
<b>MDE</b>	Michigan Department of Education.
<b>online learning</b>	A course of study capable of generating a credit or grade provided in an interactive Internet-connected virtual learning environment, where pupils are separated from their teachers by time or location, or both. To be considered an online course, all or almost all of the course content is delivered online.
<b>oversight</b>	The actions taken to review and monitor organizations and their policies, plans, and programs to ensure they are achieving expected results and are in compliance with applicable policies, laws, regulations, and ethical standards.
<b>PAM</b>	Pupil Accounting Manual.
<b>performance audit</b>	An audit which 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.
<b>PMAM</b>	Pupil Membership Auditing Manual.
<b>public school academy (PSA)</b>	A State-sponsored public school under the State Constitution, operating under a contract issued by a public authorizing body and is commonly referred to as a charter school.
<b>pupil auditor</b>	An individual who performs the pupil membership audit. This can be a certified public accountant or an individual who is employed by the intermediate school district and is trained in pupil accounting and auditing procedures, rules, and regulations.
<b>reportable condition</b>	A matter, in the auditor's judgment, less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of

laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.

**school of excellence (SOE)**

A public school under Article VIII, Section 3 of the Michigan Constitution of 1963 subject to the leadership and general supervision of the State Board of Education over all public education. It was established under Part 6E of the Revised School Code.

**SOP**

Superintendent of Public Instruction.









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