

STUDENT COUNTS AND BUDGET SHORTFALLS IN THE
MINIMUM FOUNDATION PROGRAM

HOUSE CONCURRENT RESOLUTION No. 112
OF THE 2014 REGULAR LEGISLATIVE SESSION



PERFORMANCE AUDIT SERVICES
ISSUED MARCH 4, 2015

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

March 4, 2015

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley,
Speaker of the House of Representatives
Mr. John White, State Superintendent
Louisiana Department of Education

Dear Senator Alario, Representative Kleckley, and Superintendent White:

This report provides the results of our performance audit on the student counts and budget shortfalls in the Minimum Foundation Program under the oversight of the Louisiana Department of Education (LDOE) and the Board of Elementary and Secondary Education. This audit was conducted in response to House Concurrent Resolution No. 112 of the 2014 Regular Legislative Session that required a review of the accuracy of student counts for MFP purposes.

The report contains our findings, conclusions, and recommendations. Appendix A contains LDOE's response to this report. I hope this report will benefit you in your legislative and operational decision-making process.

We would like to express our appreciation to the management and staff of LDOE for their assistance during this audit.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

MFP 2015

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Student Counts and Budget Shortfalls in the Minimum Foundation Program House Concurrent Resolution No. 112 of the 2014 Regular Legislative Session

March 2015

Audit Control # 40140009

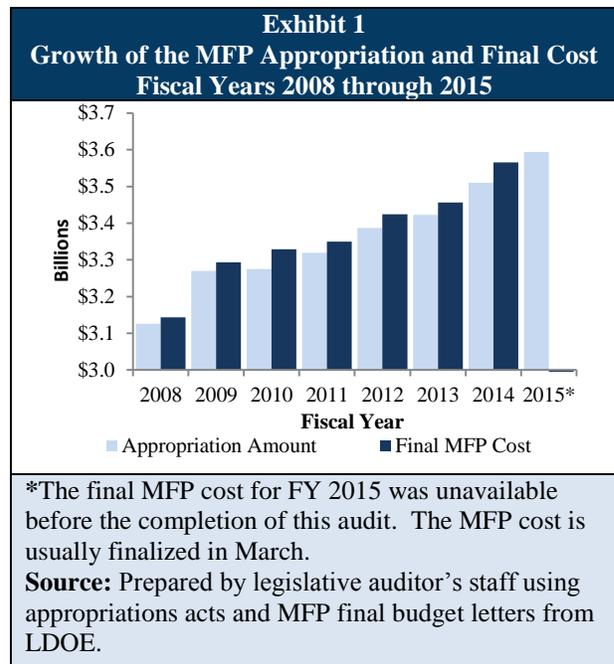
Introduction

This report provides the results of our performance audit of the Louisiana Department of Education's (LDOE) student count methodology for the Minimum Foundation Program (MFP) funding formula. We conducted this audit in response to House Concurrent Resolution No. 112 (HCR 112) of the 2014 Regular Legislative Session, which authorized and requested the legislative auditor to review the accuracy of the student membership count and to make recommendations for changes that could provide for greater accuracy and efficiency.

The purpose of the MFP is to equitably allocate annual funding to all public elementary and secondary schools. Louisiana's MFP methodology includes using the February count of the prior year to allocate the next year's MFP. Once next year's actual student counts become available in October and February, LDOE adjusts the amount of MFP funds allocated to school systems and schools based on the increase or decrease in the student count to fully fund the MFP in accordance with the Louisiana Constitution.¹

In order to ensure the accuracy of the student counts, LDOE generates error reports as student count data is submitted by school systems and schools to identify potentially ineligible students. LDOE also conducts audits of the student count data to identify ineligible students and recovers any funds associated with students determined to be ineligible for MFP funding in a given year.

In 2014, the average state share of MFP cost per student was \$5,060. As shown in Exhibit 1, the MFP appropriation has increased by \$422 million since fiscal year 2008, from



¹ Article 8, Section 13 (B) states that the legislature shall annually appropriate funds sufficient to fully fund the current cost to the state of such a program as determined by applying the approved formula in order to insure a minimum foundation of education in all public elementary and secondary schools. Neither the governor nor the legislature may reduce such appropriation.

approximately \$3.14 billion in fiscal year 2008 to approximately \$3.57 billion in fiscal year 2014. Although an increase in student enrollment is one of the reasons for the increase, other factors, such as pay raises for teachers and other school staff, incentives for local tax contributions, and increases in cost per pupil have contributed as well. See Appendix C for additional detail on these factors. To fulfill the request of HCR 112, we conducted work to answer the following objective:

Does Louisiana have a methodology and sufficient processes to ensure the student count used in the MFP funding formula is accurate?

Overall, we found that while Louisiana's methodology for counting students is consistent with other states, no methodology provides complete assurance that the student count will always be accurate. That responsibility instead lies with individual schools, school systems, and ultimately LDOE. However, we found that LDOE needs to strengthen its processes to ensure the student count is accurate. Specifically, LDOE does not ensure that school systems and schools correct errors in the data submission process, which results in potentially ineligible students being included in the initial MFP allocation at the start of the fiscal year. LDOE also should enhance its use of error reports and data analytics to select its audit sample. We identified approximately 1,000 students, totaling approximately \$3.9 million, who appeared potentially ineligible in the October 2012 and February 2013 student counts that were not included in LDOE's audit samples.

The prior year's February 1 student count serves as the basis for the initial MFP budget, which has historically shown to be the lowest measure of student enrollment. As a result, a shortfall between the initial appropriation amount and the amount required to fund the final cost of the MFP occurs each year. LDOE develops projections that anticipate adjustments and fluctuations in the student population. However, LDOE's projections historically have not been used in the initial state budget. Because the projection is not part of the initial Executive Budget, it creates a situation where less money is allocated to the MFP on the front end, which allows funds to be allocated elsewhere in the Executive Budget. However, this shortfall has in recent years contributed to the need for budget cuts mid-year in order to fund the final cost of the MFP.

The following sections discuss these results in greater detail. Appendix A contains LDOE's response to the report and Appendix B contains our scope and methodology.

Objective: Does Louisiana have a methodology and sufficient processes to ensure the student count used in MFP funding formula is accurate?

Overall, we found that while Louisiana's MFP student count methodology is consistent with other states, no methodology will provide complete assurance that student counts are accurate. The responsibility for ensuring accurate student counts lies with individual schools, school systems, and ultimately LDOE. As a result, LDOE should strengthen its processes for ensuring that the count used in the MFP allocation is accurate. Specifically, we found:

- LDOE should ensure that school systems and schools correct all errors identified during the data submission process. Because not all errors are corrected, some potentially ineligible students are included in the initial MFP amount.
- LDOE should enhance its use of error reports and use data analytics to select its audit sample. Using data analytics, we identified approximately 1,000 potentially ineligible students in the October 2012 and February 2013 student counts that were not included in LDOE's audit samples. Using these tools would help LDOE detect more ineligible students and improper payments than its current process.
- Currently, the initial MFP budget is based on the February 1 student count, which has historically shown to be the lowest measure of student enrollment. As a result, a shortfall between the initial appropriation amount and the amount required to fund the final cost of the MFP occurs. The shortfall has ranged from a low of approximately \$17.9 million in fiscal year 2008 to a high of \$55.8 million in fiscal year 2014.

These issues are summarized in more detail below.

While Louisiana's methodology for counting students for MFP purposes is consistent with other states, no methodology will provide complete assurance that student counts are accurate.

Louisiana uses student membership data as of February 1 of the prior year for determining the initial MFP budget and makes mid-year adjustments based upon the October 1 and February 1 enrollment of the current academic year. Student membership is composed of both a base and weighted membership. The base membership is comprised of all students enrolled as of the count date, while the weighted membership is the additional funding school systems and schools receive for students who meet eligibility requirements for inclusion in a weighted category. Appendix D outlines what specific populations are included in the base membership and weighted membership categories. In order to be included in the student membership for the MFP count, a student must be enrolled on or before the count date, actively

attending, and not officially exited from the school by the count date. LDOE's criteria for who should be included in the MFP student count are mandated in the Board of Elementary and Secondary Education (BESE) policy.²

Overall, we found that Louisiana's methodology for counting students for purposes of funding the MFP is consistent with how other states count students. States use a variety of methods to count students for education funding. When determining what methodology to use, states have to decide whether to use prior-year data or current-year data, if the funding will be based on a single count or multiple counts, and the methodology for the count. The methodologies used by states include average daily membership, average daily attendance, enrollment on a specific date, or full-time equivalents. Appendix E summarizes other states' methodologies. Although each methodology has its own advantages and disadvantages, none of the methodologies can guarantee that all students are counted accurately. That responsibility instead lies with individual schools, school systems, and ultimately LDOE.

LDOE should ensure that school systems and schools correct all errors identified during the data submission process. Because not all errors are corrected, some potentially ineligible students are included in the initial MFP amount.

School systems and schools report eligible MFP student membership to LDOE twice a year, on both October 1 and February 1. The student membership data is input by individual schools³ into their student information system. School systems and schools then extract data files from their data system and upload membership data to LDOE's Student Information System (SIS). As they submit the membership data, LDOE's data quality section has automated processes in place that generate error reports to identify potentially ineligible students. LDOE provides the results to school systems and schools and requests that they follow up on any potentially ineligible students to verify information and resubmit the data if needed. Appendix F provides additional details on the data submission process.

According to LDOE, it is the responsibility of the school systems and schools to correct any errors identified. However, LDOE does not ensure that they actually correct the errors. As a result, school systems and schools sometimes include duplicate students and other ineligible students or unsupported enrollment records in their final submission to LDOE for funding. In the current process, LDOE includes these potentially ineligible students in its initial funding but anticipates that the MFP audit process, which is completed approximately seven months after the count's collection period has closed,⁴ will recoup payments based on these uncorrected errors. Because LDOE is aware of these errors, it should consider removing these questionable student

² Louisiana Administrative Code Title 28 Sec. 1107 (C)

³ There are more than 1,400 schools, resulting in at least 1,400 users entering data into the system.

⁴ MFP audits generally start a few months after the collection period has closed. For example, audits of the February count begin in April and conclude in September. However, LDOE reported that adjustments made to its risk assessment process delayed the February 2014 audits to being in September rather than April of 2014.

records from the initial MFP budget unless school systems and schools correct them in a timely manner. This may provide an incentive for school systems and schools to correct these errors before the budget numbers are finalized.

Recommendation 1: LDOE should ensure that school systems and schools correct data errors. If they do not correct these errors, then LDOE should exclude potentially ineligible students identified on error reports until the school system or school can correct them.

Summary of Management's Response: LDOE agrees with this recommendation. See Appendix A for LDOE's full response.

LDOE should enhance its use of error reports and use data analytics to select its audit sample. Using data analytics, we identified approximately 1,000 potentially ineligible students in the October 2012 and February 2013 student counts that were not included in LDOE's audit samples.

Using error reports to select its sample of school systems and schools would help LDOE identify more ineligible students. MFP auditors currently use a risk-assessment process to select a sample of school systems and schools to audit for each count. The risk assessment includes eight factors, including known material fraud, number of prior-year adjustments, number of students, and dollar amount of MFP funding. Once LDOE selects the specific school systems and schools to audit based on these risk factors, it will regenerate the error reports⁵ for each school system and school to select the sample of students to audit within that school system or school. LDOE may also supplement its sample of records with random student records as well. However, because LDOE selects school systems and schools first, error reports from other school systems and schools are not included in their audit sample.

LDOE's data shows that audit samples generated from error reports are more successful at identifying ineligible students. For the February 2013 count, LDOE chose 61 school systems and schools based on the risk factors described above. LDOE's audit sample for the 61 school systems and schools included 2,404 students identified using LDOE's error reports, which resulted in 669 adjustments (27.8% of the sampled population) to the count. However, the random sample included an additional 4,264 records but resulted in only 65 adjustments (1.5% of the sampled population) to the count. Because the samples from error reports are more successful at identifying students that should be included or excluded from the count, LDOE should incorporate the error reports into its risk assessment process for selecting school systems and schools to audit. Doing so would allow LDOE to increase its efficiency and effectiveness because its audits could target known errors rather than a random sample from a population with no known errors.

⁵ These are the same error reports used during the data submission process; however, these are re-run on the final data file.

Using the same criteria⁶ LDOE uses to identify potentially ineligible student records in error reports, we identified 330 students that could potentially be ineligible in the February 1, 2013 student count. These students, however, were not included in LDOE's audit sample because they were not from one of the school systems or schools selected by LDOE or the error report was not used in generating the audit sample. Therefore, changing its risk assessment process to include results from error reports may allow LDOE to better target school systems and schools and students with likely errors. We gave our results to LDOE to follow up on these potential errors.

Using data analytics would allow LDOE to identify additional potentially ineligible enrollment records for its audit sample. School systems and schools submit an end-of-year data file by June each year that includes every enrollment record in the state for the entire school year. Using this data file, we identified 1,065 student records that had an exit date before the MFP count date that would appear to make the students ineligible for inclusion as part of the MFP count. However, LDOE did not include any of these students in its audit sample. These records represent approximately \$3.9 million for students who do not appear eligible for the MFP count based upon their exit date in the end-of-year file. Exhibit 2 provides a breakdown of the number of ineligible students by MFP count for fiscal year 2013.

Exhibit 2		
Students Improperly Counted Based on End-of -Year Record		
Fiscal Year 2013		
Count Period	Number of Ineligible Students	Total Overfunded*
October 1, 2012	371	\$1,866,501
February 1, 2013	588	1,479,114
October 1, 2012, and February 1, 2013	106	533,286
Total	1,065	\$3,878,901
*Students improperly funded on the October 1, 2012 count date or on both the October 1, 2012, and February 1, 2013, count dates are adjusted as a full student at \$5,031. Students improperly funded on the February 1, 2013, count date are adjusted as half a student at \$2,515.50.		
Source: Prepared by legislative auditor's staff using SIS and end-of-year data files obtained from LDOE.		

We reviewed 440 (41.3%) of the 1,065 records at the school system or school level to confirm that these records were ineligible. Of the 440 records, 437 (99.3%) were confirmed as ineligible. In some cases, these records were updated after the period to submit student count data had closed.⁷ In at least 33 cases,⁸ the records appear to have been last updated with an exit date before the count date that made the student ineligible for the MFP count, but the student was still included in the MFP count. Based on our review at the school system and school level, it

⁶ Students in the Special Education Reporting System (SER) were not in SIS, and infants and toddlers in SIS did not have a corresponding SER record. These are just two of the criteria used in LDOE's error reports. There are multiple other criteria that LDOE uses.

⁷ In this situation, a student could have been absent the day before the count date and not return to school. If the student had been attending prior to that date, the school would still consider the student as enrolled. However, if the student does not return to school and is later dropped from the school, the last date of attendance would be recorded as the exit date, which would make the student ineligible for the MFP count.

⁸ Not every school system's and school's data system recorded the date edits were made. As a result, the 33 cases described above may be understated as a potential issue in the population.

school level, it was unclear as to why the school systems and schools would have included these enrollments in its MFP submission to LDOE. The results of these file reviews were provided to the school systems and schools for further research and to LDOE for additional follow-up with the school systems and schools.

Using the tools above would help make LDOE's audit process more effective, as it would target those students most at risk of being ineligible. This is especially important since LDOE has decreased the number of audits it conducts from 205 in fiscal year 2010 to 71 in fiscal year 2014 and the amount of improper payments identified from approximately \$6 million to \$1.5 million. According to LDOE, it had to decrease the number of audits it conducts because of reduced staffing. As shown in Exhibit 3, the dollar amount recouped in previous years has declined, along with the number of MFP audit staff and number of audits conducted.

Exhibit 3			
Number of MFP Audits and State Dollars Saved			
Fiscal Year	Dollars Saved	MFP Audit Staff	Audits
2009-2010	\$6,035,317	5	205
2010-2011	\$6,270,520	5	249
2011-2012	\$3,978,395	5	146
2012-2013	\$3,381,841	5	79
2013-2014	\$1,541,683	4	71
Source: Prepared by legislative auditor's staff using information from LDOE.			

Recommendation 2: LDOE should enhance its use of error reports by incorporating the error reports as a factor in its risk assessment process for selecting school systems and schools to audit.

Summary of Management's Response: LDOE agrees with this recommendation. See Appendix A for LDOE's full response.

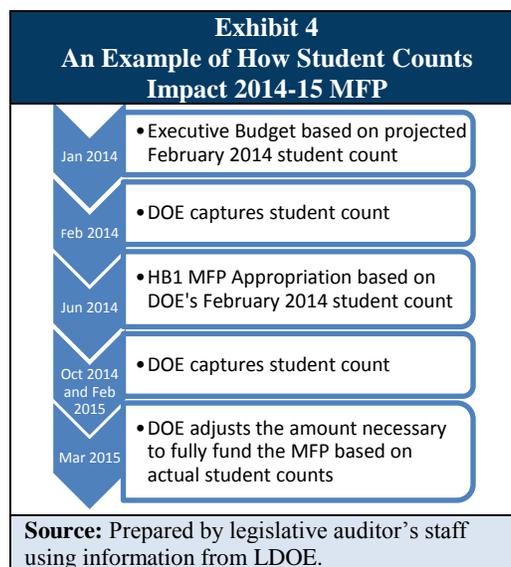
Recommendation 3: LDOE should add a data analytics component to its MFP audits that uses data already collected, such as end-of-year data, to identify additional student records that are potentially ineligible for MFP funding.

Summary of Management's Response: LDOE agrees with this recommendation. See Appendix A for LDOE's full response.

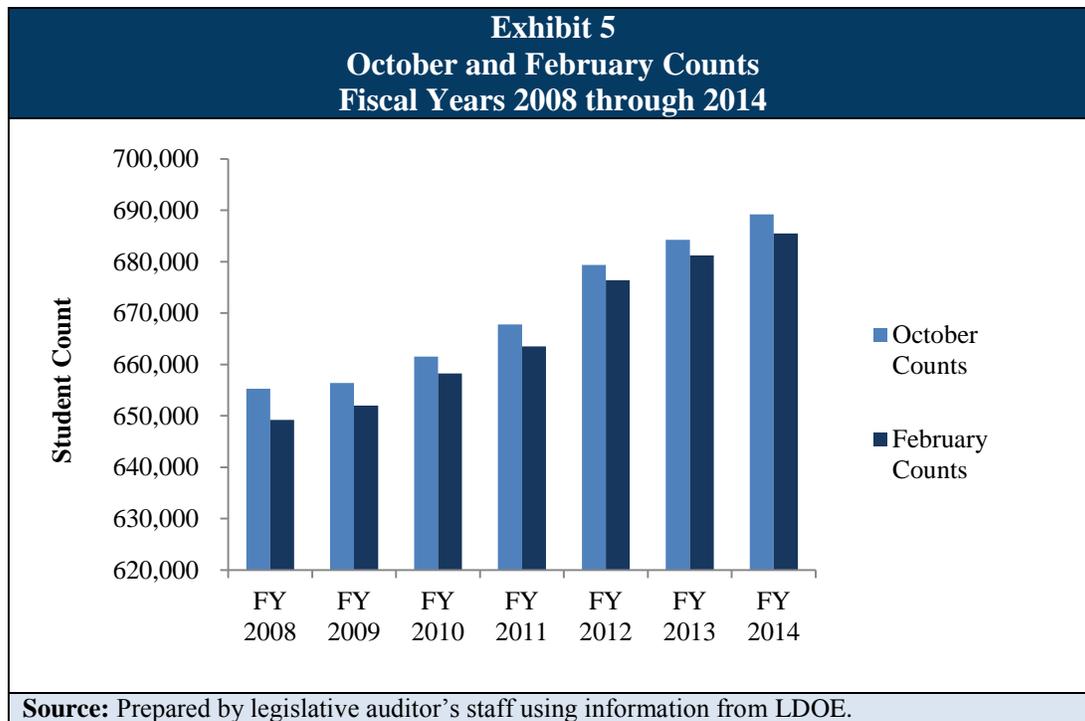
Currently, the initial MFP budget is based on the February 1 student count, which is the lowest measure of student enrollment. As a result, a shortfall between the initial appropriation amount and the amount required to fund the final cost of the MFP occurs.

According to LDOE, its involvement in the development of the MFP budget within the initial Executive Budget process is limited to providing the Office of Planning and Budget, within the Division of Administration, a historical record of MFP costs and student counts. The Office of Planning and Budget uses LDOE’s projected February 1 student count to develop the MFP budget amount included in the Executive Budget.

LDOE’s main responsibility is to use the MFP formula to equitably allocate the funds appropriated by the legislature to school systems and schools. When allocating funds to school systems and schools, LDOE uses the February count of the prior year to determine the amount each school system or school should receive. According to the MFP legislative instrument, LDOE is required to use the most current data available for the initial allocation process. Once next year’s actual student counts become available in October and February, LDOE adjusts the amount of MFP funds allocated to school systems and schools based on the increase or decrease in the student count to fund the final cost of the MFP. If the actual cost of the MFP based on actual October and February counts is more than the legislative appropriation amount, a budget shortfall occurs and requires the legislature to appropriate additional funding to fund the final cost of the MFP as constitutionally required. Exhibit 4 provides an example of how student counts impact the 2014-15 MFP amounts.



However, as shown in Exhibit 5, the February counts are historically lower than October counts. In addition, student enrollment has steadily grown in recent years. Because the February count, which is the lowest measure of student enrollment in the prior year, is used to allocate the MFP for the coming year, the mid-year adjustments have historically resulted in additional costs.



Prior to 2008, LDOE used data from the student count in October as the basis for the initial MFP funding allocations. However, due to hurricanes Katrina and Rita and known fluctuations in student population from fall to spring, LDOE implemented a February count that now serves as the basis for the initial allocation.

The difference between the initial MFP appropriation and the final MFP amount has resulted in a shortfall each year from fiscal year 2008 to fiscal year 2014. The shortfall has ranged from approximately \$17.9 million in fiscal year 2008 to \$55.8 million in fiscal year 2014. Changes to the student count are a primary reason for the shortfall, although other factors, such as differences between the projected and actual student enrollment in new charter schools and the Student Scholarships for Educational Excellence Program contributed to approximately \$28.8 million of the \$55.8 million shortfall in fiscal year 2014. Appendix G summarizes all of the factors that have contributed to the shortfall since fiscal year 2008.

As of 2011, 15 (30%) of 50 of other states reported in a survey on school finance policies and programs that they include a factor that adjusts the initial funding amounts based on historical trends in total student population.⁹ For example, Nebraska takes the historical ratio of three-year growth/decline and applies it to the current-year average daily membership. The adjusted average daily membership serves as the basis for funding in the coming year. Georgia, on the other hand, uses the average of three most recent full-time equivalency enrollment counts for each program with a mid-year adjustment the following year.

According to LDOE, it has developed a similar methodology for projecting student enrollment based on historical trends that anticipates both the October jump in enrollment from

⁹ Vertegen, D.A. (2011). A 50-state survey of school finance policies and programs.

the lower February count, as well as the growth or decline in the MFP population overall. Including LDOE's projection as part of the initial Executive Budget process would help reduce the mid-year MFP budget shortfall. Because the projection is not part of the initial Executive Budget, it creates a situation where less money is allocated to the MFP on the front end, which allows funds to be allocated elsewhere in the Executive Budget. However, this adds to a need for budget cuts mid-year in order to fund the final cost of the MFP.

Recommendation 4: LDOE should routinely provide the Office of Planning and Budget with the comprehensive MFP student count and cost projections so that those projections may be incorporated into the Executive Budget.

Summary of Management's Response: LDOE agrees with this recommendation. See Appendix A for LDOE's full response.

Matter for Legislative Consideration: The legislature should consider using LDOE's student count and cost projection included in the Executive Budget along with any new information available on the MFP formula proposed for the following year when determining the MFP appropriation to help reduce the gap between the MFP appropriation and the amount necessary to fund the final cost of the MFP.

APPENDIX A: MANAGEMENT'S RESPONSE



LOUISIANA DEPARTMENT OF EDUCATION

February 26, 2015

Mr. Daryl Purpera
State Legislative Auditor
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

The Louisiana Department of Education appreciates the opportunity to respond to the recommendations articulated in the report entitled "Student Counts and Budget Shortfalls in the Minimum Foundation Program" prepared as a response to House Concurrent Resolution No. 112 of the 2014 Regular Legislative Session. Our responses are contained below:

Recommendation 1 – LDOE should ensure that school districts and schools correct data errors. If school districts and schools do not correct these errors, then LDOE should exclude potentially ineligible students identified on the error reports until the school districts and schools can correct them.

The LDOE agrees with this recommendation. The LDOE agrees that school districts should correct data errors. The current policy requires the inclusion of potentially ineligible students from the MFP Student Membership Count so that school districts and schools are provided the funds for any questionable student until supporting documentation is examined and inclusion/exclusion in the count is substantiated. The recommended change in policy will require the LDOE to consult with BESE, School Boards Association, Superintendent's Association and the Charter School Association before implementing such a change.

I would like to note that there are financial implications to the school districts and schools with this policy change. The student data collection process and guidelines currently allow for two districts that appear to be counting the same student to each receive funding for the student initially but only until the MFP audit of this situation is completed. Once the documentation has been reviewed and the auditors have determined which district or school is actually entitled to count the student per the MFP Membership Definition, then the funds are adjusted as appropriate.

The responsibility for accuracy starts with the data submitted by the school districts and schools then shifts to the data cleansing processes implemented by LDOE. LDOE data collection processes produce error reports that are reviewed by districts and schools to improve accuracy of student information. Students that appear to be counted twice are listed on these error reports. When such a situation

occurs, districts and schools are instructed to attempt to resolve these situations on their own. However, this is sometimes difficult due to the unusual circumstances surrounding the occurrence of this error. A lot of documentation must be produced and reviewed in order to resolve such a situation. For example, on the count date, a student arrives at one school in the morning and is counted in attendance but after lunch is moved by a parent to a different school district. The new school district then adds this new student to their membership count. Both districts count this student because they both believe the student meets the membership definition for their district.

Early on in the implementation of the student data system, the LDOE learned that these unusual circumstances require a lot of effort to untangle and that it was best to have the agency provide this support rather than having the entities involved attempt to handle this on their own. This task has been the responsibility of the MFP Audit staff and they review supporting documentation on each and every duplicate student before making a determination of where the student should be counted.

Counting and funding these duplicate students initially does not penalize the districts and schools but gives them both the benefit of the doubt on the front end knowing that these circumstances are often complicated. Then the MFP Auditors review the documents that support the student's inclusion in the membership count and make the necessary adjustments to the student count and funding based on the findings of the review. If the LDOE excludes these duplicate students up front, then this will be a shift in this long standing policy on funding of duplicates. School districts will need to become accustomed with all the extra staff effort needed on their part to research this matter if they want to attempt to resolve this matter ahead of time and have the student counted.

Recommendation 2: LDOE should enhance the use of error reports by incorporating the error reports as a factor in its risk assessment process for selecting LEAs to audit.

The LDOE agrees with this recommendation. The MFP Audit risk assessment process will be updated to incorporate the End-of-Year error reports as a factor in selecting districts and schools for audit.

Recommendation 3: LDOE should add a data analytics component to its MFP audits that uses data already collected, such as end-of-year data, to identify additional student records that are potentially ineligible for MFP funding.

The LDOE agrees with this recommendation. The Analytics team will review the data and provide reports pinpointing student records where the End-of-Year enrollment record would make a student ineligible to be counted. MFP Audit staff will adjust its audit procedures to incorporate the review of these End-of-Year analytics to identify student records that are potentially ineligible for MFP funding.

These revisions will require the LDOE to revise its policies on the End-of-Year data collection. Currently, LDOE utilizes the End-of-Year student data collection to obtain accurate student attendance and

Mr. Daryl G. Purpera
Page 3
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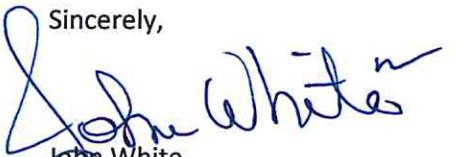
discipline information and preliminary dropout and graduate counts, and does not emphasize student count information. LDOE will need to revise the requirements to stress submission of student enrollment data as well. In order to do this, LDOE will include enrollment analytics in the End-of-Year data verification process for districts and schools. Feedback to the districts regarding the data that they have submitted will help ensure this information is more accurate. The same analytics can then be leveraged to inform the new audit processes.

Recommendation 4: LDOE should routinely provide the Office of Planning and Budget with the comprehensive MFP student count and cost projections so that these projections may be incorporated into the Executive budget.

The LDOE agrees with this recommendation and will provide this information routinely to the Office of Planning and Budget so that they will have this data available during the development of the Executive Budget.

If you have any questions, you may contact Beth Scioneaux at beth.scioneaux@la.gov or via phone at 342-3617.

Sincerely,



John White
State Superintendent of Education

JW: bs

APPENDIX B: SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We conducted this audit in response to House Concurrent Resolution No. 112 of the 2014 Regular Legislative Session, which requested the legislative auditor to review the accuracy of the student membership count and determine the cause of the recurring MFP budget shortfall. This audit generally covered state Fiscal Year 2008-2014.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To answer our objectives, we reviewed internal controls relevant to the audit objectives and performed the following audit steps:

- Researched Louisiana law, Board of Elementary and Secondary Education (BESE) bulletins, and the legislatively-approved MFP formula and interviewed LDOE staff to understand the funding components of the MFP, how each component is calculated, and the eligibility requirements of students being included in the membership count.
- Interviewed LDOE staff to identify the relevant data used in the MFP funding calculation and state level systems - Student Information System (SIS) and Special Education Reporting System (SER), which are used to generate the base and weighted student counts respectively.
- Interviewed LDOE staff and reviewed SIS and SER user manuals to understand how the student count data is reported from school systems and schools to the state and how LDOE edits the data before it is used in the MFP funding calculation.
- Identified a list of software systems that school systems and schools use to track the student information and selected four systems representing different software systems. Conducted site visits and interviewed school system staff to understand their processes of capturing student count data at schools and how the data is reported from schools to the system and from the system to LDOE, as well as school systems' controls in ensuring the accuracy of the student information captured in their systems.
- Interviewed LDOE audit staff and obtained relevant audit performance data to understand how LDOE audits the student count data on the back end and how effective the audit function is in identifying instances where students should or

should not have been included in the student membership count and adjusting the payments made to school systems and schools accordingly.

- Requested student count data for the last three fiscal years (2012-2014), which totaled six counts (last three February counts and three October counts) and compared the membership count total in each file to the student count reported in the corresponding MFP budget document to ensure that the data files that we examined were the ones used to calculate the MFP budgets.
- Requested end-of-year data files for the last three school years (2012-2014) from LDOE. These data files are submitted by school systems and schools at the end of the school year, and they contain any student enrolled at any point in time during the entire school year and their enrollment information.
- Conducted data analyses to identify students that may have been counted incorrectly. Ranked school systems and schools by the number of potential errors and conducted file reviews at a list of sampled schools and school systems representing different school system and school types (ten parish school systems, three charter schools, and one city school system) to determine whether the potentially ineligible students we identified were true errors.
- Interviewed LDOE and the Office of Planning and Budget staff to understand the MFP budget process and reviewed relevant budget documents to identify the factors attributable to the MFP spending increase and the cause of the recurring MFP budget shortfall.
- Researched other states' methodologies used to budget for their states' MFP and reviewed research papers discussing the pros and cons of different methodologies. Compared Louisiana's methodologies to other states.
- Obtained Census data representing different population groups including population ages 0-24, non-English speaking population, population in poverty, and disabled population, and compared the changes in these populations based on the census data to the changes of respective student groups funded by the MFP during the same timeframe.

APPENDIX C: LIST OF MAJOR FACTORS CONTRIBUTING TO THE MFP FUNDING INCREASE FROM FY2008 TO FY2014

Factor	Description	Amount Increased in Millions	% of Total MFP Cost Increase
Student population increase	The total MFP-funded membership increased by 28,480 (3.1%) from 924,021 to 952,501.	\$107	25%
Per-pupil-cost	Per pupil cost increased 2.75% once in FY2009 from 3,752 to 3,855.	62	15%
State incentive to local districts	This is an incentive for city and parish school systems to support education in their communities above the minimum level financial support required. This incentive has steadily increased each year from \$334 million to \$430 million.	96	23%
Pay raise	Two pay raises were given during this time period. A recurring pay raise was given in FY09 and a non-recurring pay raise was given in FY14.	126	30%
Total MFP Funding Increase From FY08 to FY14		\$422*	
<p>*Our four categories added up are not equal to the overall change, because not all factors that affected the MFP cost were listed and the budget impacts of two of our categories (student population increase and per pupil cost) were estimated amounts.</p> <p>Source: Prepared by legislative auditor's staff using MFP budget documents from LDOE finance staff.</p>			

APPENDIX D: REQUIREMENTS AND REPORTING PROCESS FOR TYPES OF MFP MEMBERSHIP

Base Membership		
	Criteria	Reporting Process
Base Membership	Each student reported only once	School system or school uploads to SIS
	Registered on or before the count date	
	Actively attending school in the school system or school reported	
	Not formally exited	
	Special populations, such as BESE-approved alternative programs, charter schools, RSD, lab schools, Office of Juvenile Justice (OJJ); Students that reside in Louisiana, attend school in another state, but are Louisiana's funding responsibility; special education preschool (age 3-5); and special education infants (age birth-2)	
Specified Exceptions to Base Membership	Students over age 22; Private school students receiving public special education services; regular pre-kindergarten students	
Weighted Membership		
	Criteria	Reporting Process
At-Risk (22%)	Eligible for free or reduced lunch	School system or school uploads to SIS
	English language learner	School system or school uploads to SIS
Special Education - Other Exceptionalities (150%)	Infants and toddlers (0-2) receiving services with Individual Family Service Plan (IFSP)	Accessed by LDOE directly in SER data file
	Public and non-public age 3-21 with disability receiving services from public system with Individual Education Plan (IEP)	Accessed by LDOE directly in SER data file
Gifted and Talented Students (60%)	Public and non-public age 3-21 identified as gifted/talented receiving services from public system with Individual Education Plan (IEP)	Accessed by LDOE directly in SER data file
Career and Technical Education (6%)	Number of secondary career and technical education courses per student	School system or school uploads to SIS
Source: Prepared by legislative auditor's staff using Title 28 of BESE and information provided by LDOE.		

APPENDIX E: STUDENT COUNT METHODOLOGIES

State	Student Count Timing		Number of Counts			Methodology				Mid-Year Adjustment
	Prior Year	Current Year	Single Count	Multiple Counts	Highest or Average	ADM	ADA	FTE	Membership	
Alabama	X		X			X				
Alaska		X	X			X				
Arizona - District	X		X			X				X
Arizona - Charter		X	X			X				
Arkansas	X		X			X				X
California	X	X			X		X			
Colorado		X	X						X	
Connecticut	X		X						X	
Delaware		X	X						X	
Florida		X		X				X		
Georgia	X				X			X		X
Hawaii		X	X						X	X
Illinois	X				X		X			
Indiana		X		X		X				
Iowa		X	X					X		
Kansas	X	X			X				X	
Kentucky	X		X				X			
Louisiana	X		X						X	X
Maine	X				X				X	
Maryland	X		X					X		
Massachusetts	X		X						X	
Michigan	X	X		X				X		
Minnesota	X		X			X				
Mississippi	X		X				X			
Missouri	X	X			X		X			
Montana	X				X				X	
Nebraska		X	X			X				X
Nevada	X				X				X	
New Hampshire	X		X			X				X
New Jersey		X	X						X	
New Mexico	X				X			X		
New York	X	X			X				X	

State	Student Count Timing		Number of Counts			Methodology				Mid-Year Adjustment
	Prior Year	Current Year	Single Count	Multiple Counts	Highest or Average	ADM	ADA	FTE	Membership	
North Carolina		X			X	X				X
North Dakota	X	X			X				X	
Ohio	X		X			X				
Oklahoma	X				X	X				X
Oregon	X	X			X	X				
Rhode Island	X		X			X				
South Dakota	X	X			X	X				
Tennessee	X		X			X				X
Texas	X		X				X			
Utah	X		X			X			X	X
Virginia		X	X			X				
West Virginia	X		X						X	
Wisconsin	X				X			X		
Wyoming	X		X			X				

Source: Prepared by legislative auditor’s staff using information obtained from LDOE.

APPENDIX F: MFP STUDENT MEMBERSHIP DATA SUBMISSION PROCESS

School Systems or Schools to LDOE

- Upload files to SIS during October and February collection periods of student enrollment records as of count date. Records are used for base membership and “at-risk” weighted membership (February only).
- Maintain updated student records in SER for students with exceptionalities. Records are used for Students with Disabilities and Gifted and Talented (February only).
- Upload class schedule files to SIS during LEADS collection period. Records are used to support Career and Technical Education Units (February only).

LDOE Data Quality

- Some error reporting built into the submission process to flag potentially ineligible students.
- Business rules in data system flag student records that meet MFP count criteria.
- Contractor extracts data file from SER using MFP criteria.
- Data records are summed for total students by school system or school and provided to LDOE Education Finance.

LDOE Education Finance

- Excludes school systems and schools and sites that are not included in MFP.
- Adjusts statewide number based on estimated enrollment in new Type 2 charters (addition), schools adding grades (addition), or SSEEP (subtraction).

MFP Appropriation to School Systems and Schools

MFP Auditors in Education Finance

- Audit risk-based sample of school systems and schools for accurate student counts and weighting.
- Adjustments for audit findings applied to next year’s MFP appropriation.

APPENDIX G: BUDGET SHORTFALL REASONS

Other factors have also contributed to recurring MFP budget shortfalls. While student counts are the primary factor for MFP budget shortfalls from fiscal year 2008 through fiscal year 2014, there are other factors that contribute to the shortfalls. These factors include both one-time and recurring issues. Exhibit 6 below summarizes the amount attributed to each category of shortfall in each year of the scope.

Exhibit 6 Causes of MFP Budget Shortfalls Fiscal Years 2008 through 2014							
Cause	2008	2009	2010	2011	2012	2013	2014
October/February Mid-Year Adjustments Based on Student Count	\$14,978,501	\$33,282,011	\$52,789,763	\$30,135,578	\$35,295,677	\$16,128,470	\$23,469,276
Estimate vs. Actual*					310,373	16,431,165	31,236,730
Legislative Pay Raises and Stipends	7,071,972	1,802,232		(196,000)	14,000		195,217
Cash-on-Hand at Start of Year			1,112,380	(177,754)	1,083,358		817,583
Impact of Supreme Court on Eligible Students for Count						1,888,919	
MFP Audit Adjustments	(221,945)	1,251,580		(18,926)	19,181		82,153
Placeholder to Offset Hurricane Recovery Population Shifts	(3,922,422)	(13,346,074)					
Total	\$17,906,106	\$22,989,749	\$53,902,143	\$29,742,898	\$36,722,589	\$34,448,554	\$55,800,959
*Further explained in Exhibit 7							
Note: Causes are ranked highest to lowest by total dollar amount for the entire scope.							
Source: Prepared by legislative auditor's staff using the approved appropriation act, LDOE's March budget letters, and information from LDOE finance staff.							

Additional costs incurred as a result of the difference between LDOE's initial estimate of certain costs versus actual numbers became a significant shortfall category in fiscal years 2013 and 2014. Exhibit 7 below describes these adjustments and provides the dollar amount associated.

Exhibit 7				
Costs Resulting from LDOE Budget Estimate versus Actual				
Anticipated Frequency	Adjustments	2012	2013	2014
One-time /Special Circumstance	Estimate for Impact of Student Scholarships for Educational Excellence Program (SSEEP)			\$20,240,000
	Actual for Average Daily Attendance at Office of Juvenile Justice (OJJ)			135,456
	Difference Between Projected and Actual Student Enrollment in New Charter Schools			8,605,242
	Local Revenue Representation for Legacy Type 2 Charters	\$310,373	\$16,431,165	2,256,032
Total		\$310,373	\$16,431,165	\$31,236,730
Source: Prepared by legislative auditor's staff using information provided by LDOE.				