

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EDUCATION**

**INTERNAL CONTROL OVER ADEQUATE
EDUCATION AID CALCULATIONS**

NOVEMBER 2013

To The Fiscal Committee Of The General Court:

This report presents the results of our assessment of the internal controls in place over the accumulation of data for, and the calculation and determination of, Adequate Education Aid by the Department of Education (Department) for the fiscal year ended June 30, 2013.

The work performed did not constitute an audit of financial statements in accordance with *Government Auditing Standards* and was not designed for the purpose of expressing an opinion on the effectiveness of the Department's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Department's internal controls.

The Department's response is included with each finding in this report. We did not audit the Department's responses.

Office of Legislative Budget Assistant

Office Of Legislative Budget Assistant

November 2013

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EDUCATION**

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This report can be accessed in its entirety on-line
at: <http://www.gencourt.state.nh.us/LBA/AuditReports/financialreports.aspx>

* Comment suggests legislative action may be required.

**STATE OF NEW HAMPSHIRE
DEPARTMENT OF EDUCATION
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EXECUTIVE SUMMARY

The objective of this audit was to evaluate whether the Department of Education (Department or DOE) has established and implemented suitable internal controls over its Adequate Education Aid program for the accumulation and verification of data and determination and distribution of adequate education aid to local school districts. The program resides in the Department's Division of Program Support, Bureau of Data Management. The purpose of this audit was not to render an opinion on the Department's financial statements, internal control, or compliance.

Department management is responsible for establishing and maintaining effective internal controls, including controls over financial reporting and controls over compliance with the laws, administrative rules, regulations, contracts, and grant agreements applicable to the Department's activities. The Department of Administrative Services (DAS) has developed an *Internal Control Guide* to help State agency personnel understand the concepts of internal control. It explains the purpose of internal control and also explains its five components: control environment, risk assessment, control activities, information and communication, and monitoring.

We conducted our work in accordance with auditing standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). 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 the evidence obtained provides a reasonable basis for our findings.

SUMMARY OF RESULTS

We found the Department had not established and documented detailed policies and procedures for significant aspects of its Adequate Education Aid (Aid) processes. While the Department's primary student-level data collection system and database (i4see) for Aid calculations appeared to be a reasonably controlled system, the Department had only limited documentation supporting the detail of its i4see data extractions and calculations used in the determination of Aid payments. A significant aspect of the calculations relied upon spreadsheets which were not fully supported by robust data integrity and other controls. The Department's internal controls over its determination and payment of Aid further lacked suitable verification controls for data provided by school districts and review and approval controls to ensure Aid calculations are accurate and comply with statute and policy.

The Department also had not designed or implemented suitable controls over significant aspects of its systems and processes for accumulating accurate school and student data. Control deficiencies in the Department's data-related processes included lack of documentation supporting the use of information technology systems, including documentation describing data extract parameters critical for determining eligibility for differentiated aid amounts;

undocumented change controls for data extracts; reliance on spreadsheets with limited password protections; and ineffective review and approval controls over IT system output, compounded by a general lack of informed review and approval controls supporting the determination of Aid.

Certain of the issues noted during the audit had an impact on the Department's determination of schools' aggregate costs of providing the opportunity for an adequate education. However, none of the issues noted during the audit appeared to have an impact on grant amounts paid to school districts during fiscal year 2013. This was due to the application of the stabilization and cap provisions in RSA 198:41, which essentially resulted in the same adequate education grant amounts in 2013 as were distributed in fiscal years 2011 and 2012.

BACKGROUND

Pursuant to RSA 198:40-a, the annual cost of providing the opportunity for an adequate education as defined in RSA 193-E:2-a is \$3,450 for each pupil attending public school, plus any applicable differentiated Aid for which a pupil is eligible. Differentiated Aid includes \$1,725 for each pupil eligible for the federal free and reduced-price meal program, \$675 for each pupil who is an English language learner and receiving English language instruction, \$1,856 for each pupil receiving special education, and \$675 for each third grade pupil who has not tested at the proficient level or above in the reading component of the State assessment and is not eligible to receive special education, English as a second language, or free and reduced-price meal program funds in the determination year.

RSA 198:40-d provides for a consumer price index adjustment of these amounts beginning July 1, 2013 and RSA 198:41 provides direction to the Department for the determination of the total Aid grant for a municipality. RSA 198:42 provides the appropriation and schedule for the distribution of Aid grants.

Pursuant to RSA 198:41, the amount of each municipality's grant payment is the total cost of providing the opportunity for an adequate education for which each pupil is eligible less the amount of the tax warrant to be issued by the Commissioner of the Department of Revenue Administration for such municipality reported pursuant to RSA 76:9 for the next tax year, with some exceptions.

Pupil data used by the Department in determining Aid grants is obtained primarily through the Department's Initiative for School Empowerment and Excellence (i4see), a student-level data collection information system and database. School districts electronically upload data to the i4see system which is used by the Department for multiple purposes, including the determination of Aid.

The Department provides information and statistics related to Aid on the Department's website at: http://www.education.nh.gov/data/state_aid.htm.

The following table provides the amount of Adequate Education Aid provided school districts during fiscal year 2013, and the source of funding for the Aid.

**Adequate Education Aid (Unaudited)
Fiscal Year 2013**

Adequate Education Aid Grant Payments	\$ 578,236,605
Education Property Tax (RSA 76:3)	<u>363,674,748</u>
Total Adequate Education Aid To Municipalities And School Districts	<u>\$ 941,911,353</u>

Source: Analysis of State accounting system transactions.

During fiscal year 2013, the Department made Adequate Education Aid payments to 160 school districts. Payments were made in September and November of 2012, and January and April of 2013.

The Department is located at 101 Pleasant Street, Concord, New Hampshire.

OBJECTIVES, SCOPE, AND METHODOLOGY

Audit Objectives

1. Assess the control environment, including management's policies and procedures for:

Establishment and maintenance of an effective control system over the aggregation of data meeting program criteria, compiling and summarizing that data, and calculating Aid.

2. Assess the adequacy of the design of internal controls, over the aggregation of data meeting program criteria, compiling and summarizing that data, and calculating and making Aid payments, including:

- Adequacy of written policies and procedures, and
- Adequacy of controls over compliance with laws, rules, policies, contracts, and other relevant criteria.

3. Assess the operation of the controls, including:

- Functional compliance with written policies and procedures related to Aid, and
- Functional compliance with stated (but not necessarily documented) policies and procedures related to the collection of data from school districts, categorizing and processing that data, and the determination of Aid amounts, with consideration given to:

1. The identification of relevant data,
2. The categorization and accumulation relevant data,

3. The determination of the base and differentiated Aid amounts, including criteria for average daily membership in attendance (ADMA) and for differentiated Aid eligibility, and
4. Manifesting payments.

Audit Scope

The scope of our audit included the adequacy of internal controls over the Department's determination and processing of Aid to school districts.

The audit period was the fiscal year ended June 30, 2013.

Audit Methodology

1. Review relevant statutes, rules, policies, and procedures.
2. Interview agency personnel about processes.
3. Review relevant Department documentation including:
 - Process descriptions, including queries used to accumulate, categorize, and extract data; and
 - Other documentation supporting the collection of data from school districts, categorizing and processing that data, and the determination of Aid amounts.
4. Observe Department operations.
5. Review design and operation of internal controls through tests of transactions.

PRIOR AUDIT

There are no prior audits that specifically addressed the Department of Education's internal controls over its Adequate Education Aid program. The Office of Legislative Budget Assistant issued a financial and compliance audit of the Department of Education for the year ended June 30, 2000 and a performance audit titled *Adequate Education Grant Data* dated December 2004. The appendix on page 15 of this report presents the current status of the comments in those reports that specifically address the Department's controls over its Adequate Education Aid program as it existed in fiscal year 2013. Copies of the prior reports can be accessed at: <http://www.gencourt.state.nh.us/LBA/>.

OBSERVATIONS AND RECOMMENDATIONS

Observation No. 1: Internal Controls Over Adequate Education Aid Calculations Should Be Strengthened

Observation:

The Department has not established strong internal controls for its Adequate Education Aid (Aid) calculations. The Department's controls for the Aid calculations should reasonably ensure the Department's and State's objectives for the Aid are met. As noted in this and the following observations, the Department has not fully developed, formalized, and documented its control processes to reasonably ensure the Aid program is operated efficiently and effectively, its financial operations are reliably reported, and that it is in compliance with applicable State law. Examples of insufficient and ineffective controls are identified in the following items.

1. As more fully described in Observation No. 2, the Department has not reasonably documented policies and procedures for calculations of Aid. Management's attention to, and participation in, the establishment of policies and procedures is a critical fundamental of an effective control environment.
2. The Department is largely reliant upon school districts to report accurate and complete student data.
 - The Department did not perform any on-site audits or reviews of school district data during fiscal year 2013, or the data determination years of 2008 and 2009. The Department reported it lacked the resources to perform on-site audits and reviews.
 - As more fully described in Observation No. 3, the Department has not established suitable data verification controls, including detailed policies and procedures, to review data provided by school districts for accuracy. While the Department's information technology (IT) system used by the school districts to upload student data has robust automated data integrity checks to promote consistent data and anticipates that superintendents certify the accuracy of submitted data, the Department did not formally compare that data to similar data elements independently collected and maintained by other bureaus of the Department.
3. As further discussed in Observation No. 4, the Department has not established controls to ensure school districts account for and report the use of differentiated Aid as required by statute.
4. The Department has not established reasonable controls over the IT systems used to identify student data and calculate Aid.
 - The Department has not reasonably documented its IT systems used in the calculation of Aid. While there is some documentation included in database query scripts, the documentation is not comprehensive or referenced, and in some instances is inaccurate.

For example, in accumulating student data related to differentiated aid for English language learners (ELL), the data extract query incorrectly excluded high school students. As a result, for fiscal years 2012 and 2013, the total calculated cost of an opportunity for an adequate education was understated by \$519,245. Due to grant cap and stabilization provisions in statute, there was no effect on the amount of the Aid grants paid in fiscal years 2012 and 2013 resulting from the error. The Department's documentation of the query script, primarily in the form of informal memos and notes maintained by the system operator, did not provide insight into the source of the error.

- The Department has not implemented change controls for the IT systems used in the calculation of Aid. While auditors were informed changes affecting the i4see student-level data collection system and database are informally reviewed, the Department did not identify that it had formal change controls for the database inquiry scripts or spreadsheets used in the Aid process. Spreadsheets used to calculate aid are not fully protected against unauthorized and inadvertent access and change.
 - The Department has not clearly identified a “test” environment separate from its production environment for the Aid IT system queries and spreadsheets. Running tests and other scenarios in the production environment can lead to unintended changes in that environment.
5. The Department has not established review and approval controls for critical aspects of its Aid calculations. Data accumulated from the student information database is entered into spreadsheets used to calculate aid by municipality. There is no independent check to ensure information posted to spreadsheets is complete and accurate and no review of the accumulated data to ensure the spreadsheet categorizations and accumulations are accurate. While the employee who works with the spreadsheets reports they do a limited review to check that data was entered correctly onto the spreadsheets, there is no independent and formal review and approval control for the appropriateness and accuracy of the data entered.
 6. The Department places significant reliance on an information system contractor for both the operation of its student information system and its Aid calculations. The Department's contractor was involved in the production or confirmation of much of the information the Department provided to the auditors. It was also apparent from the Department's documentation of database query scripts that the contractor was involved in the definition of data accumulations and calculations described in the scripts. Placing so much responsibility with a contractor increases the Department's risk that it will not have the necessary in-house expertise to properly manage and operate the program should that ever become necessary.

Recommendations:

The Department should strengthen internal controls for processes affecting its Aid calculations. The Department should:

1. Establish and fully document its policies and procedures for all processes affecting its Aid calculations.

2. Establish additional data verification controls to reasonably ensure that information provided by school districts is accurate. The Department should:
 - Perform on-site audits or reviews of school district data to ensure school districts are reporting student attendance and differential aid information accurately and in accordance with State requirements.
 - Compare school district reported information for consistency with similar data elements collected by other bureaus of the Department.
3. Establish controls to ensure that, where required, school districts are reporting the use of differentiated Aid in compliance with statutes.
4. Improve controls over the information technology (IT) systems used to identify student data and calculate Aid. The Department should:
 - Document the IT systems used for its Aid calculations.
 - Establish IT system change controls that ensure changes made in the IT systems, including spreadsheets and query scripts, are required, authorized, tested, documented, and approved prior to implementation.
 - Ensure there is a proper segregation of test activity from production systems, to ensure that unintended changes are not implemented.
5. Establish review and approval controls for critical aspects of its calculation of Aid. All critical aspects of the calculations should be subject to reasonable review and approval controls to provide reasonable assurance that data and calculations are accurate.
6. Ensure that it retains full control and authority over its operation of the Aid data and calculations and is not overly reliant on its consultants.

Auditee Response:

The Department concurs.

We appreciate the thorough and professional work performed by the audit team in reviewing our internal control over adequate education aid calculations. The Department is very pleased that an extremely comprehensive audit confirmed that our existing policies and procedures resulted in no mistakes in the adequacy payments made to municipalities in fiscal year 2013 totaling \$941,911,353 of adequacy funding. With limited state funded staff, and frequent legislative changes to state aid calculations, the Department recognizes that we have not been positioned to have many of the recommended policy and procedure documents and controls. We are encouraged that the policies and procedures we do have in place resulted in correct payments.

1. The Department will expand our documentation of policies and procedures and create additional internal controls helping to ensure accuracy and reliability of the adequacy calculations.

- The Department has begun to better document the processes used to calculate adequacy aid.
 - The Department will expand the “How State Aid was Determined” to further refine the definition of state calculations.
2. The Department concurs that additional controls could be implemented to validate school submitted data, including on-site audits.

The Department has hundreds of validation rules and dozens of anomaly reports to ensure data accuracy. In addition to these automated reports, the Department reviews additional ‘sandbox’ reports to ensure accuracy. Many reports and rules are implemented to compare across independent data submissions. The Department ensures the End of Year data submissions are certified by superintendents prior to running the adequacy reports. There is significant communication and extensive follow-up with districts to ensure this is complete.

- The Department has formed a team to audit schools for many of our federal programs. The Department currently lacks sufficient personnel to expand this team’s focus to include the audit of data submitted by schools and used for adequacy funding. In order to expand the monitoring and auditing of school districts to include data submission, the Department will need to create additional positions and hire additional employees to complete these reviews.
 - The Department has initiated an effort to bring together the Bureau of Special Education and the Bureau of Data Management to consider ways to validate the data used to identify special education students.
3. The Department concurs that we have not performed a review to ensure districts account for the use of their differentiated aid. However, the Department believes the current law does not represent the intent of the legislature at the time the law was passed.
- The Department will work with the legislature to confirm the intent and either recommend repeal or correct the legislation (action).
4. Although the Department does believe we have some controls for IT systems used for adequacy calculations (including scripts used for testing that are separated from production scripts), the Department will create additional controls.
- The Department has begun to develop IT process descriptions for the Adequacy calculations.
 - The Department has already removed access to the Adequacy spreadsheets for some individuals.
 - The Department will add password protection to the finalized spreadsheets.
5. The Department, effective with fiscal year 2014, has implemented independent checks to ensure information posted to spreadsheets is complete and accurate. In addition, spreadsheets were reviewed by multiple people within the Department, the Budget Division of the Office

of Legislative Budget Assistant, and the Governor's office. In addition, we are increasing the rigor and scope of these reviews.

- Beginning this year, the Department held a meeting with the Budget Division of the Office of Legislative Budget Assistant, the Department of Revenue Administration, the Office of the Attorney General, and the Governor's office to review the Adequacy process, policies, and spreadsheets.
 - The Department has also recruited Department of Education employees independent of the Bureau of Data Management to review the calculations. These reviews include year to year fluctuation analysis of data inputs to check for reasonableness, spreadsheet formula review for accuracy, and overall year to year allocation comparison to check for reasonableness and accuracy. Evidence of these reviews is documented by the employees performing them.
6. The Department recognizes that in addition to significant review and leadership within the agency, it also uses the services of a consultant to provide additional assistance with the policies, processes and review. The Department lacks the personnel needed to properly dedicate the time to prepare, review and monitor Adequacy work. The Department has voiced the need for additional state staff to assist with the creation and review of the Adequacy work. The bureau administrator position was frozen and subsequently eliminated in 2008. Retirement of a statistician resulted in a second frozen and eliminated position. A request for additional staff was identified in the fiscal analysis of legislation passed in 2012. Although the Department has paid out the appropriate Adequacy funding, the Department recognizes the need for additional staff to improve the rigor of controls, policies, and procedures.
- The Department lacks the personnel needed to properly dedicate the time to prepare, review, and monitor Adequacy work. In order to ensure proper review going forward, the Department will need to create additional positions and hire additional employees to complete these reviews.

Observation No. 2: Adequate Education Aid Processes Should Be Documented In Policies And Procedures

Observation:

The Department has not reasonably documented in policies and procedures its processes for determining Adequate Education Aid (Aid) to school districts. The Department has not centrally documented in policy and procedure the parameters for information used in the Aid calculations and how that information should be verified prior to use in the calculations. The Department relied upon the experience and knowledge of certain employees, a consultant, and database query scripts designed in prior years to determine municipality costs for providing an opportunity for an adequate education to be used in determining Aid amounts to local school districts.

Documented policies and procedures promote clarity, consistency in process, adherence to policy, accountability, and transparency. Effective documentation of an organization's policies and procedures assists in communicating the specific intent and protocols of a process. The lack of guiding policies and procedures can result in inaccurate, incomplete, and inconsistent application of management's intentions and directives and hinder effective internal controls and accountability for an organization's compliance with those intentions and directives.

In reviewing the Department's internal control over the fiscal year 2013 Aid and inquiring about the Aid calculation process, there were instances when responsible employees had to review database query scripts to verify and describe criteria used to identify and categorize student data in the Aid calculations. While database query scripts should accurately implement policy, they should not be the primary source for the definition and description of policy. Policy should be clearly and explicitly documented in a format that is readily available and describes program objectives, goals, criteria, and processes, including measures for monitoring performance and the effective and efficient implementation of the policies.

Recommendations:

The Department should establish detailed, documented policies and procedures describing the objectives, goals, criteria, and processes for calculating and distributing Aid. The policies and procedures should cover both the calculation of the aid and distribution amounts and also provide for effective review and approval controls to ensure compliance with statute and the policies intended to implement the statutory directives.

All changes to documented policies and procedures, made in response to changes in statute or for other reasons, should be subject to an effective management review and approval process. All changes to information systems used in Aid calculations and determinations should also be subject to a reasonably detailed review and approval control.

Auditee Response:

The Department concurs.

Although the Department does believe we have many documented policies and procedures for the submission and reporting of the student data and Adequacy Aid as well as many undocumented policies and procedures, we recognize the need for more formal policy and procedure documentation.

- The Department has begun to better document the processes used to calculate Adequacy Aid.
- The Department will expand the "How State Aid was Determined" to further refine the definition of state Adequacy Aid calculations.

Observation No. 3: Policies And Procedures For Reviewing And Clearing School-Submitted Data For Anomalies Should Be Established

Observation:

The Department has not established detailed, documented policies and procedures supporting its processes for reviewing and clearing school-submitted data for anomalies, prior to using the data in Adequate Education Aid (Aid) calculations, and for responding to revisions, corrections, and other variations in student information.

1. School districts report student information using the Department's student-level data collection system and database (i4see). As school districts upload student information, including end of school year, free and reduced-price lunch, public special education, and English language learner enrollment data sets, reports are generated for statewide data verification. The reports regularly change, as districts upload and make corrections to their submitted student data. The reports provide data validation checks across all schools within the state. For example, one report will alert a school district to students whose attendance and absences exceed the 360 half-day norm. Districts are required to resolve any statewide conflicts or data anomalies reported on these reports, often the result of reporting errors for a student attending more than one school in a reporting year. If data anomalies on the statewide level are not resolved timely, the Department contacts the school districts to prompt the settlement of a reporting inaccuracy. While all data anomalies should be resolved before the submitted data can be used in the Aid calculation, the Department has no formal policies and procedures to guide its process for ensuring all recognized anomalies are resolved with the timely correction of data.
2. RSA 198:42, I, as amended effective beginning with fiscal year 2014 by Chapter 198, Laws of 2012, states, "During the course of the school year, the commissioner may make adjustments in grant payments necessitated by variations in the ADMA [average daily membership in attendance] data for a school district for any fiscal year in which the ADMA calculation is made."

For fiscal year 2013 and prior fiscal years, Aid calculations used historical student data, generally several years prior to the Aid year. Due to the time lapse between the end of a data year and the year the data was used in an Aid calculation, the Department was able to make corrections, adjustments, and other changes to the ADMA data as appropriate, before it was used in an Aid calculation. Starting with the fiscal year 2014, the Department will use student data from the immediately preceding school year, lessening the opportunity for the Department to correct data prior to making the initial grant payments and increasing the potential that the Department will need to make adjustments to subsequent distribution amounts.

Recommendations:

1. The Department should document detailed policies and procedures to support its processes for identifying and correcting data anomalies and conflicts noted on its state-wide review reports, prior to the data being used in the Aid calculations.
2. The Department should document detailed policies and procedures for determining when and how to make adjustments to grant payments when changes, corrections, or other variations in school district data are subsequently recognized, including after the publication of the Aid or after Aid payments are made to the school districts.

Auditee Response:

The Department concurs.

1. The Department is rigorous in running anomaly reports and making sure every district resolves anomalies before the data is used. As one example, for the year of the adequacy audited, the use of anomaly reports identified students across the state that were reported by multiple schools. The assurance that these anomalies were resolved ensured overpayment for these students did not occur.
 - The Department has begun to better document the policies and procedures guiding the review of anomaly reports.
2. With the recent change in legislation that requires the use of more current ADM data, the Department has recognized the need to define policies to guide changes in Adequacy payments due to corrections in attendance (and related) data. We have begun this effort for 2013-14. As identified in the audit, timing was not as critical in prior years due to the lapse in time between determining attendance data and making aid calculations.
 - The Department has begun to discuss our policy for adjusting adequacy payments based upon changes in attendance and related data. We will document this policy.

Observation No. 4: Differentiated Aid Should Be Accounted For And Reported In Compliance With Statute

Observation:

The Department has not required school districts to account for and report differentiated aid in accordance with RSA 198:40-b.

RSA 198:40-b, I, states “A school district which receives differentiated aid under RSA 198:40-a, I(b)-(e) for schools within its jurisdiction, shall separately account for such aid as part of its financial accounting procedures. Differentiated aid shall only be used to provide enhanced programs in schools within its jurisdiction for which such aid has been allocated that are known

to improve pupil achievement, including but not limited to: pre-kindergarten programs, full-day kindergarten programs, extended learning time, professional development opportunities for teachers, hiring of additional instructional and non-instructional personnel, programs designed to reduce class size, parental involvement programs, additional technology resources, drop out prevention programs, principal incentive programs, and curriculum enrichment programs. The school district shall determine which programs are most needed and most appropriate for their pupils. The department shall annually review and update the list of approved programs from which a school district may choose.”

RSA 198:40-b, II states “A school district which receives differentiated aid under RSA 198:40-a, I(b)-(e) for use in schools within its jurisdiction shall annually submit a report to the commissioner documenting for each school within its jurisdiction for which such aid has been allocated, the enhanced programs selected for implementation, an explanation of the specific educational needs which the program is intended to address, an explanation of how the program will be implemented in the school, and an estimate of the cost of implementing the program. The commissioner shall review these reports to ensure that differentiated aid will be used to provide programs approved under paragraph I.”

The Department reported it was unaware of the accounting and reporting requirements of RSA 198:40-b and was unaware if school districts were accounting for differentiated aid in accordance with RSA 198:40-b, I. The Department reported it had not received the reporting required by RSA 198:40-b, II.

Recommendation:

The Department should establish appropriate policies and procedures to ensure that differentiated aid is accounted for and reported as required by statute.

If the Department determines the requirements for accounting for and reporting differentiated aid are no longer necessary for the calculation of the Adequate Education Aid, the Department should request an appropriate revision to statute.

Auditee Response:

The Department concurs.

Although the Department fully concurs that we have not been accounting for the use of differentiated aid, the Department has identified that RSA 198:40-b I, references RSA sections that no longer exist. The Department believes the intent of the legislature when passing the original RSA is no longer applicable as free and reduced-price meal aid is no longer provided in the manner it was during the creation of RSA 198:40-b. Additionally, as the current Adequacy formula provides caps on grants, it is questionable if the amount of differentiated aid a school receives is able to be determined.

- The Department will work with the legislature to revise or repeal RSA 198:40-b.

Observation No. 5: Apparent Conflicts In Statutes Should Be Resolved

Observation:

Certain statutes addressing aspects of the Adequate Education Aid calculation appear to be in need of legislative attention, due to apparent statutory conflicts and outdated referencing.

1. There is an apparent conflict between RSA 198:38, VII and RSA 198:40-a in grade-level criteria for differentiated aid for pupils eligible for the federal free and/or reduced-price meal program.

RSA 198:38, VII, defines “Pupils eligible for a free or reduced-price meal” means pupils in **grade 1** through grade 12 who are eligible for the federal free or reduced-price meal program.” RSA 198:40-a, I, states, “Differentiated aid shall be in the amount of \$1,725 for each pupil in the public school’s ADMA in the determination year who is in **kindergarten** through grade 12 and who is eligible for the federal free and reduced-price meal program.” [Emphasis added.]

The Department uses the criteria in RSA 198:40-a, I, kindergarten through grade 12, for determining differentiated aid for pupils eligible for a free or reduced-price meal.

2. RSA 198:40-b, I and II refer to a school district which receives differentiated aid under RSA 198:40-a, I(b)-(e). Paragraphs I(a)-I(e) were deleted by Chapter 258, Laws of 2011.

Recommendation:

The Department should request legislation affecting the Adequate Education Aid calculations be amended to eliminate apparent conflicts and to revise or eliminate outdated referencing as appropriate.

Auditee Response:

The Department concurs.

The Department agrees with the observations of the two RSA mechanical defects and the associated recommendation. The Department also believes there are additional mechanical defects that should also be addressed.

- The Department will work with the legislature to revise the statutes contained in this observation as well as the following:
 - References in the relevant RSAs to ADMA [average daily membership in attendance] should be replaced with ADMR [average daily membership in residence].
 - 198:40-a VI references ‘districts’ but should reference ‘municipalities’.
 - 198:41 III (b) and IV (c) both put limitations on the ‘total education grant’. It should be clarified that III (b) takes precedence over IV (c).

Appendix

CURRENT STATUS OF PRIOR AUDIT FINDINGS

The following is a summary, as of November 2013, of the current status of the observations contained in the December 2004 performance audit report of the Department of Education Adequate Education Grant Data and the fiscal year 2000 financial and compliance audit report of the Department of Education that are relevant to the scope of this audit. The prior audit reports can be accessed on-line at: <http://www.gencourt.state.nh.us/LBA/>.

	<u>Status</u>		
<u>Department of Education Adequate Education Grant Data Performance Audit Report December 2004</u>			
<i>Managing Data Collection And Reporting</i>			
1. Adopt And Promote Standards And Guidelines For Data Collection And Reporting	●	●	●
<i>Designing And Planning Data Collection And Reporting</i>			
2. Describe Forms And Instructions In Administrative Rules	●	●	●
3. Promulgate Attendance Data Collection Rules	●	●	●
4. Clarify Attendance Reporting Requirements For School Districts	●	●	●
5. Improved Training Should Coincide With On-Site Visits	●	●	●
6. Increase Use Of The Education Statistics System	●	●	●
<i>Collecting Data</i>			
7. Collect Final Attendance Data By September 30	●	●	●
8. Ensure Requisite Signatures Are Included On Reports	●	●	●
9. Conduct External Verification Of School District Attendance And Financial Data (<i>See Current Observation No. 1</i>)	●	○	○
<i>Preparing, Processing, And Analyzing Data</i>			
10. Establish Policies And Procedures For Processing Attendance And Financial Data (<i>See Current Observation No. 2</i>)	●	○	○
11. Establish Policies And Procedures For Low-Income Targeted Aid Data Collection	●	●	●
12. Establish Policies And Procedures For System Controls (<i>See Current Observation No. 1</i>)	●	○	○

Continued next page.

Reporting And Disseminating Data

- 13. Ensure A Comprehensive Independent Review Of Adequate Education Grant Calculations (*See Current Observation No. 1*) ● ○ ○
- 14. Use Of Consumer Price Index Not Consistent With Law ● ● ●
- 15. Report Final Attendance Data [And Also Report On Appropriation Of The Education Trust Fund] To The Legislature ● ○ ○
- 16. Establish Policies And Procedures For Revising Public Reports (*See Current Observation No. 2*) ○ ○ ○

Other Issues And Concerns

- DoE Consultants Appear To Be DoE Employees ● ○ ○
- The State Accounting System Should Accurately Reflect Department Activity ● ● ●

Department of Education Financial And Compliance Audit Report For The Year Ended June 30, 2000

Internal Control Comments

Material Weaknesses

- 1. The Department Must Establish And Implement Formal Policies And Procedures To Strengthen Controls Over Education Adequacy Grant Calculations (*See Observation No. 1*) ● ○ ○
- 2. The Department Needs An Effective Mechanism To Assess The Quality Of Financial And Attendance Data Submitted By School Districts (*See Observation No. 1*) ● ○ ○

<u>Status Key</u>				<u>Count</u>
Fully Resolved	●	●	●	9
Substantially Resolved	●	●	○	0
Partially Resolved	●	○	○	8
Unresolved	○	○	○	1
No Longer Applicable	●	●	●	2