



Illinois State Board of Education

Internal Audit
Evidence-Based Funding Formula

Final Report

Tuesday, December 6, 2022

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Introduction

Disclaimer

This report is for the Illinois State Board of Education's use only and, therefore, should not be shared outside of the Agency without prior consent of the Internal Audit Officer. The internal audit was performed by Baker Tilly US, LLP, as contracted special assistant internal auditors working on behalf of the Illinois State Board of Education Internal Audit Office.

Objective

A contractor for the Illinois State Board of Education (ISBE) made a coding error in the spring of 2018 during the initial development of the enrollment verification system for Evidence-Based Funding (EBF). The code error began with the FY2019 EBF distribution. After learning of the error, ISBE recalculated the Evidence-Based Funding Formula for fiscal years 2019 through 2022 using corrected information to determine the impact to Organizational Units. Organizational Units that were owed more than \$10 because of the error were provided payment for their recalculated cumulative shortfall under the revised calculations. These payments were provided through a supplemental appropriation measure that was authorized by the General Assembly for more than \$87 million in additional funding. ISBE has implemented recovery efforts for Organizational Units that were overpaid more than \$10 because of the error in the 2019 through 2022 Evidence-Based Funding Formula calculations. ISBE put additional protocols in place to ensure accuracy moving forward, as well as initiated the process to pursue an internal audit of the entire EBF formula. ISBE is committed to taking all measures necessary to ensure fidelity with the EBF formula and ensure fairness in state education funding.

Audit Approach

This Statement of Work is entered into by and between the Illinois State Board of Education (Client) and Baker Tilly US, LLP (Baker Tilly) pursuant to the Master Contract (21-416CMS-BOSS4-P-26279).

Phase 1: Project Management & Kick-off

During Phase 1, Baker Tilly, in conjunction with the Client, performed project initiation and kick-off activities. Tasks in this Phase included:

- Conducting a project kick-off meeting
- Issuing an initial data request
- Finalizing the project schedule and expected deliverables

Note that on-going project management was budgeted in this phase. On-going project management consisted of:

- Weekly status meetings with the project liaison
- Monthly written project status reports

Phase 2: Information Gathering & Interviews

During Phase 2, Baker Tilly performed procedures to understand the EBF formula and relevant legislation, including the Illinois School Code (detailed at 105 ILCS 5/18-8.15). The purpose of Phase 2 was to develop an understanding of the calculation and prepare testing procedures accordingly. Tasks in this Phase included:

- Review data requested, including but not limited to the calculation file, corresponding policies and procedures, and relevant prior audit work.
- Review the prior cross walk of legislation to the calculation spreadsheet performed by ISBE. Note that we worked with Client legal staff when Baker Tilly had questions as to interpretation of the legislation.
- Developed testing procedures to test:
 - Data collection, review, and verification
 - Formula and calculation development
 - Corrections and adjustments

- Baker Tilly reviewed and sought approval of the testing procedures with the Client.

Phase 3: Testing & Analysis

In Phase 3, Baker Tilly performed audit testing procedures as outlined and approved in Phase 2. Baker Tilly performed all testing procedures on the scope period of fiscal years 2018 through 2022 Evidence-Based Funding calculation workbooks that utilized corrected information relating to the coding error that was identified by the Illinois State Board of Education. There are five (5) areas of testing that were performed and have been defined throughout the report as Sections A, B, C, D, and E. The following is the testing plan utilized:

Data collection, review, and verification (Sections A, B, and C)

The accuracy of the calculation is dependent on the accuracy of data inputs. The purpose of these tests was to determine, on a sample basis, whether the data inputs collected by ISBE correspond appropriately to the scope period. The following test procedures were performed:

- Selected a sample of 60 Organizational Units using a risk based and stratified approach. We identified potential risks of calculation error in Phases 1 and 2 and aligned our sample selection to areas of high risk. We also considered stratification strategies based on organizational unit tier, size, location, and other factors as identified.
- Requested documentation used by ISBE as data inputs for the fiscal years 2018, 2019, 2020, 2021, and 2022.
 - Note that where data sources are provided by a third party with no intermediary calculation steps, Baker Tilly did not perform procedures to determine accuracy of the data itself. Where the Client performs intermediate calculations with source data, Baker Tilly reviewed, on a sample basis, the accuracy of the intermediate calculations. For purposes of these tests, an intermediate step is defined as a calculation performed by ISBE with source data prior to entry/inclusion in the EBF calculation.

Data Set	Testing Section	Provider/Source
Equalized Assessed Valuation (EAV) Amounts	B	Illinois Department of Revenue
Tax Rates by Purpose	B	Illinois Department of Revenue
Enterprise Zone Abatements (EAV)	B	Illinois Department of Revenue
General Authority Abatements (EAV)	B	Illinois Department of Revenue
PTAB Decisions (EAV)	B	Illinois Department of Revenue
Certificates of Error (EAV)	B	Organizational Units and Their Contractors
Limiting Rates	C	Illinois Department of Revenue
Limiting Rates - Secondary Source	C	County Clerks
Corporate Personal Property Replacement Tax (CPPRT) Revenue	C	Illinois Department of Revenue
Low-Income Student Population	A	Illinois Department of Human Services
Average Student Enrollment	A	Data Strategies and Analytics Department - ISBE and Software Solutions Department - ISBE
English Learner Student Enrollment	A	Data Strategies and Analytics Department, ISBE and Software Solutions Department, ISBE
Comparable Wage Index	A	Texas A&M
AFR Transportation Expenditures	C	School Business Services Department - ISBE
Transportation Revenue	C	Funding and Disbursements Department - ISBE
Unfunded Liability for CPS 299	A	Chicago Teachers Pension Fund
Average Salaries by Position (Teacher, Principal, etc.)	A	Data Strategies & Analytics Department - ISBE

- Performed tests on the sample to determine whether the data inputs from the source documentation were accurately included in the EBF formula.
- Documented exceptions and validated understanding with Client.

Formula and calculation development (Section D)

Building on tests performed around data collection, Baker Tilly performed sample-based testing to validate the accuracy of the EBF calculation model. The following test procedures were performed:

- Leveraged the sample of 60 Organizational Units selected for data collection testing.
- For each of the sample Organizational Units, tested the accuracy of each calculation in the spreadsheet to measure accuracy of the model.
 - Baker Tilly worked with the Client to understand how the model was developed and how the components of State Statute were captured within the various calculations.
 - Testing was performed chronologically by fiscal year to account for data elements and contingencies that carry over year to year.
 - Due to COVID-19 there was no change in funding levels from FY2020 to FY2021, therefore testing for 2021 Evidence-Based Funding calculations were not as extensive as the other years within the scope of our procedures.
- Documented exceptions and validated understanding with Client.

Corrections and adjustments (Section E)

Baker Tilly performed testing of corrections and adjustments to determine whether the corresponding policies for processing, validating, and approving corrections and adjustments were followed. The following tests were performed:

- Randomly selected a sample of 25 corrections and adjustments to be tested.
- For each sampled correction and adjustment, performed tests to determine if the adjustment and correction was supported by evidence (e.g., source data) and approved in accordance with Client policy.
- Documented exceptions and validated understanding with Client.

Phase 4: Reporting

In this phase, Baker Tilly prepared a draft report, reviewed the report with the project liaison, and finalized the report accordingly. Tasks performed include:

- Validated the accuracy of all exceptions with the Client.
- Prepared a draft report summarizing the conclusions of the internal audit activities.
- Reviewed the draft report with the client.
- Finalized all workpapers and prepared for delivery.
- Finalized the report and delivered it to the client.

Please find the originally executed Scope of Work in Appendix A.

Project Sample Metrics Tested

Data Set	Provider/Source	Testing Section	Source Documents	Metrics
Low-Income Students	Illinois Department of Human Services	A	Final and draft low-income count data, Data Strategies and Analytics Department geocoded student data	19 data sources viewed, and 1 recalculation performed for 60 Organizational Units for 5 years. Total of 1,200 data inputs tested and 300 recalculations performed.

Data Set	Provider/Source	Testing Section	Source Documents	Metrics
Average Student Enrollment and English-Language Learners	Data Strategies and Analytics Department - ISBE and Software Solutions Department - ISBE	A	Excel workbook summary level data, Student Information System final and draft English-language learner snapshot/summary data	7 data sources viewed, and 16 recalculations performed for 60 Organizational Units for 5 years. Total of 22,800 data inputs tested and 4,800 recalculations performed.
Comparable Wage Index (CWI)	Texas A&M	A	Final and draft CWI data provided by the State Funding and Forecasting Department	1 data source viewed, for 60 Organizational Units for 5 years. Total of 300 data inputs tested.
Average Salaries by Position	Data Strategies and Analytics Department at ISBE	A	Employment Information System Excel data	4 data sources viewed, for 12 Positions for 5 years. Total of 60 data inputs tested.
Equalized Assessed Valuation (EAV) Amounts	Illinois Department of Revenue	B	Original EAV, Real EAV (review of datasets 3-6 below), Adjusted EAV (average of 3 prior years Real EAVs), Limiting Rate, Prior Year Original EAV, Prior Year Original Operating Tax Rate, Extension Limitation Ratio, and PTELL EAV (if applicable)	Over 40 total data sources viewed, 21 data inputs tested, and 10 recalculations performed for 60 Organizational Units for 5 years. Total of 6,300 data inputs tested and 3,000 recalculations performed.
Tax Rates by Purpose	Illinois Department of Revenue	B	Operating Tax Rate, Original EAV, Real EAV, AFR Transportation Expenditures, FRIS Transportation Revenues, Calculated Transportation Rate (Deduction from Operating Tax Rate), Expenditure to Revenue Comparison, Adjusted Operating Tax Rate, and Final Operating Tax Rate	35 total data sources viewed, 11 data inputs tested, and 8 recalculations performed for 60 Organizational Units for 5 years. Total of 3,300 data inputs tested and 2,400 recalculations performed.
Enterprise Zone Abatements (EAV)	Illinois Department of Revenue	B	Taxes Abated and GSA Rates	10 data sources viewed, 2 data inputs tested, and 1 recalculation performed for 60 Organizational Units for 5 years. Total of 600 data inputs tested and 300 recalculations performed.
PTAB Decisions (EAV)	Illinois Department of Revenue	B	PTAB Decision Source Document	15 total data sources viewed, 1 data input tested for 60 Organizational Units for 5 years. Total of 300 data inputs tested.
General Authority Abatements (EAV)	Illinois Department of Revenue	B	Taxes Abated and GSA Rates	10 total data sources viewed, 2 data inputs tested, and 1 recalculation performed for 60 Organizational Units for 5 years. Total of 600 data inputs tested and 300 recalculations performed.

Data Set	Provider/Source	Testing Section	Source Documents	Metrics
Certificates of Error (EAV)	Organizational Units and Their Contractors	B	Certificate as Keeper of Records and Files	50 total data sources viewed, 1 data input tested for 60 Organizational Units for 5 years. Total of 300 data inputs tested.
Limiting Rates	Illinois Department of Revenue	C	Preliminary Limiting Rates reported by Illinois Department of Revenue and County Clerks, as well as supporting documentation provided by ISBE Funding & Disbursements Department for all applicable years in the scope period	4 data sources viewed for 60 Organizational Units for 4 years. Total of 960 data inputs tested.
Limiting Rates - Secondary Source	County Clerks	C	Preliminary Limiting Rates reported by Illinois Department of Revenue and County Clerks, as well as supporting documentation provided by ISBE Funding & Disbursements Department for all applicable years in the scope period	4 data sources viewed for 60 Organizational Units for 4 years. Total of 960 data inputs tested.
Corporate Personal Property Replacement Tax (CPPRT) Revenue	Illinois Department of Revenue	C	IDOR CPPRT Receipts Data reported by the Illinois Department of Revenue, as well as supporting documentation provided by ISBE Funding & Disbursements Division	4 data sources viewed for 60 Organizational Units for 4 years. Total of 960 data inputs tested.
AFR Transportation Expenditures	School Business Services Department - ISBE	C	Total Expenditures Data from Annual Financial Reports reported by ISBE's School Business Services Department, as well as supporting documentation provided by ISBE Funding & Disbursements Department for all applicable years in the scope period	2 data sources viewed for 60 Organizational Units for 4 years. Total of 480 data inputs tested.
Transportation Revenue	Funding and Disbursements Department - ISBE	C	Total Transportation Revenue Data reported by ISBE's Funding & Disbursements Department, as well as supporting documentation provided by ISBE Funding & Disbursements Department for all applicable years in the scope period	3 data sources viewed for 60 Organizational Units for 4 years. Total of 720 data inputs tested.
Unfunded Liability for CPS 299	Chicago Teachers Pension Fund	A	Chicago Teachers' Pension Fund Certified Adjusted Local Capacity Target Document	1 data source viewed for 1 Organizational Unit for 5 years. A total of 5 data sources tested.
Formula Review	Funding and Disbursements Department - ISBE	D	Final, unlocked workbooks and most recent and applicable version of EBF law prior to allocation for a given fiscal year	165 individual formulas reviewed, for 60 Organizational Units for 4 years. A total of 39,600 formulas tested.

Data Set	Provider/Source	Testing Section	Source Documents	Metrics
Adjustments	Funding and Disbursements Department - ISBE	E	Final, unlocked workbooks containing adjustments within the specified adjustment column and the relevant supporting documentation	Documentation for 25 individual instances, if a sampled adjustment was the same amount in multiple fiscal years, testing was performed on this amount across all fiscal years impacted. A total of 34 total instances of adjustments were tested.
Summary of Project Sample Metrics Tested				Over 200 data sources viewed, over 39,000 data inputs tested, and over 50,000 recalculations performed

Evidence-Based Funding Sampling Methodology (Sections A, B, C, D, and E)

To select an appropriate sample of 60 Organizational Units, Baker Tilly used a risk-based approach and stratified the population. As information gathering and interviews took place, areas with higher risks were identified and were included in the sampling process. The 3 primary data points that contributed to the final sample selection were: 1. Regional Locations, 2. EBF Final Tier Determinations, and 3. Average Student Enrollment. Fiscal year 2018, the year the Evidence-Based Funding began, was the data that was used when determining the sample of Organizational Units.

The first data point considered was Regional Location. The state is divided into 6 geographical regions, which were pre-determined by the Illinois Association of Regional School Superintendents. Baker Tilly stratified the total number of Organizational Units into a percentage allocation of all 6 regions, noting 35%, 14%, 13%, 13%, 10%, and 15% were from regions 1, 2, 3, 4, 5, and 6, respectively. When applying the stratified percentage across 60 Organizational Units, the final sample resulted in:

- 21 – Region 1 Organizational Units
- 9 – Region 2 Organizational Units
- 8 – Region 3 Organizational Units
- 8 – Region 4 Organizational Units
- 6 – Region 5 Organizational Units
- 8 – Region 6 Organizational Units

The second data point considered was EBF Final Tier Determinations. The EBF Tiers were pre-determined and calculated through multiple data sources at the Illinois State Board of Education. The data sources reviewed consisted of documents from Student Information System (SIS) (Verified by Organizational Units), Department of Human Services, Texas A&M, Illinois Department of Revenue, 2016 Annual Financial Report, FRIS, County Clerks, Illinois State Board of Education Division of Funding & Disbursements, and General State Aid Calculations (prepared by the State Funding and Forecasting Division). As 71% of the Organizational Units in Illinois are considered Tier 1 and Tier 2, Baker Tilly elected to select 75% (or 45) of the samples from those Tiers. The remaining 25% (or 15) of samples were chosen from Tier 3 and Tier 4. The final sample resulted in:

- 22 - Tier 1 Organizational Units
- 23 - Tier 2 Organizational Units
- 5 - Tier 3 Organizational Units
- 10 - Tier 4 Organizational Units

The third, and final, data point considered was Average Student Enrollment (ASE). Unlike the Regions and EBF Tiers, there were not any pre-determined groupings, therefore, Baker Tilly created 4 groups based upon percentages and stratifications. The process to create groupings began with taking the total number ASE across all 853 Organizational Units in FY2018, totaling 1,960,669. The average ASE for FY2018 was 2,298.56. Baker Tilly used the 2018 ASE Average to create 4 groupings. To determine the first group, Baker Tilly multiplied the 2018 average ASE by 25% which was calculated at 574. All Organizational Units below 574 ASE were allocated to group 1. The Organizational Units with an ASE between 574 and 2,299 (the average) were allocated to group 2. To determine group 3, Baker Tilly multiplied 2,298.56 by 1.75 to a calculated amount of 4,022. Organizational Units with ASEs between 2,300 and 4,022 were allocated to group 3. Organizational Units with ASEs over 4,022 were classified as group 4. Once the groups were determined and classified, the total number of ASEs from each group were added together to obtain a total ASE number for each group. Once the group ASE totals were determined Baker Tilly divided the group totals (individually) by the total ASE number (1,906,669) across the State, to get to the percentage of Organizational Units that should be sampled from each specific grouping. The final sample resulted in:

- Group 1 – 92,825 ASE total – 5% of population – 3 Organizational Units Sampled
- Group 2 – 434,607 ASE total – 22% of population – 13 Organizational Units Sampled
- Group 3 – 242,158 ASE total – 12% of population – 8 Organizational Units Sampled
- Group 4 – 1,191,079 ASE total – 61% of population – 36 Organizational Units Sampled

Baker Tilly used the sampling methodology described above to determine a sample of 60 Organizational Units. Each data points' specific criteria were captured in the 60 Organizational Units that were selected. The Regions, Tiers, and Groupings were represented exactly as each stratification indicated. ***Please find the selected sample in Appendix B.***

Adjustments Sample Methodology (Section E)

Baker Tilly compiled a population of all adjustments within the fiscal years 2018 through 2022 Evidence-Based Funding calculation workbooks. From this analysis we noted that there were no adjustments in the 2021 and 2022 fiscal year workbooks. We sampled all 8 of the adjustments identified in the 2020 calculation workbook and sampled one of the adjustments in the 2019 calculation workbook that did not contain the same adjustment amount as noted in the 2020 calculation workbook. Lastly, we sampled 16 adjustments from the 2018 calculation workbook. Of these 16 adjustments sampled, 11 Organizational Units were included in our sample of 60 Organizational Units, the remaining 5 Organizational Units were selected randomly. It is important to note that in several instances adjustments identified for testing were the same amount in multiple Evidence-Based Funding calculation workbooks. When a sampled adjustment was the same amount in multiple fiscal year calculation workbooks, we performed testing on these amounts for each year the adjustment related to. This approach resulted in more than 25 adjustments being tested in total.

Summarized Results of Testing

The results of the testing performed for each data set are discussed in detail within the corresponding section of the report. In summary, for 17 of the 18 data sets examined, no exceptions were noted related to the accuracy of the data utilized in the Evidence-Based Funding Calculation spreadsheet when compared to the supporting documentation provided by the Illinois State Board of Education. For the Comparable Wage Index data set included in Section A, there was a finding that impacted fiscal years 2021 and 2022, which has been provided on the next page within the related finding section.

There were no findings that resulted from our procedures related to validating the accuracy of the formulas used in the Evidence-Based Funding calculation spreadsheet. However, the **Other Matters** section within testing Section D, that pertains to formula testing and alignment with statute, provides further insight into our procedures for determining the accuracy related to calculation elements that could not be fully reconciled with the statute and is summarized below.

Other Matters

For Evidence-Based Formula testing, our procedures identified two calculation elements that we were unable to fully reconcile with the Evidence-Based Funding model as described in state statute ILCS 5/18-8.15 and that warrant further explanation. The two calculation elements identified were as follows:

1. Recalibrated Per Pupil Elements
2. Minimum Tier 2 Funding

In relation to the testing performed for adjustments, our testing procedures resulted in no exceptions that require further discussion.

Summary of Finding

Related Finding #	Criteria	Detailed Finding	Result
#1	<p>—</p> <p>105 ILCS 5/18-8.15(a)(4): “(4) As used in this Section, the following terms shall have the meanings ascribed in this paragraph (4): ... “Comparable Wage Index” or “CWI” means a regional cost differentiation metric that measures systemic, regional variations in the salaries of college graduates who are not educators. The CWI utilized for this Section shall, for the first 3 years of Evidence-Based Funding implementation, be the CWI initially developed by the National Center for Education Statistics, as most recently updated by Texas A&M University. In the fourth and subsequent years of Evidence-Based Funding implementation, the State Superintendent shall re-determine the CWI using a similar methodology to that identified in the Texas A&M University study, with adjustments made no less frequently than once every 5 years...”</p>	<p>Condition: CWI was not re-determined using a similar methodology to that identified in the Texas A&M University study. Instead, the original version, last updated in 2013, has been used for all years of the Evidence-Based Funding calculation.</p> <p>Consequence: The effect of noncompliance with 105 ILCS 5/18-8.15(a)(4) exposes the Illinois State Board of Education to the potential risks associated with using noncompliant Comparable Wage Index data in Evidence-Based Funding calculation.</p> <p>Cause: Management stated the EBF statute created the Professional Review Panel “to study and review topics related to the implementation and effect of Evidence-Based Funding ...”</p> <p>Per 105 ILCS 5/18-8.15(i)(3)(A) and (B) the Panel “may also study the following topics at the direction of the chairperson:</p> <p>(A) The format and scope of annual spending plans referenced in paragraph (9) of subsection (h) of this Section.</p> <p>(B) The Comparable Wage Index under this section.”</p> <p>The work of reviewing and determining a new Comparable Wage Index was assigned to the Recalibrate Committee of the Panel. That committee discussed the topic during meetings in winter 2020. Specifically, the topic was discussed during meetings held on 11/4/20, 12/10/20 and 12/15/20. For a variety of reasons, the work was not completed.</p> <p>The Recalibrate Committee did not meet during 2021. In 2022 the committee resumed meetings. However, those meetings were focused on responding to House Resolution 722 and Senate Resolution 900.</p>	Non-Compliant

Summary of Internal Audit Recommendations

Recommendations for Internal Controls (Sections A, B, and C)

The CWI requirement is expressly represented as a Superintendent requirement. In 2020, the Superintendent delegated the responsibility and authority to the Recalibrate Committee of the Professional Review Panel. The Committee addressed the matter two times before it was brought to the attention of the Panel.

Committee in November 2020: *“There was an agreement to have Mr. Wolfe, the ISBE staff, Ms. Wendell, and Ms. Flanagan to meet to discuss what recommendations should be brought to the PRP committee. Ralph suggested “it might be possible to discuss the process in December and then discuss the research performed at a committee meeting in January.”*

Committee in December 2020: *“A comparison of the CWI model with data from 2013 – as utilized in the first four years of EBF implementation — and the CWIFT model, which is the update to the CWI by NCES/TAMU using more recent data and replicated each year, was circulated to Recalibration Committee members/ISBE to determine whether the CWIFT 2018 data would be adequate to use. The Committee determined that if the model functioned in the same way and fit within the statutory language, then the Regionalization Factor should be updated using the CWIFT model.”*

Panel in December 2020: *“Recalibration Committee members shared their input with Robert Wolfe who was determining if the CWIFT model was an adequate replacement for the CWI used as part of the Regionalization Factor. The committee is close to making a recommendation to the full Panel. A decision was made to further investigate the impact of the switch to CWIFT.”*

Per law: *“The CWI utilized for this Section shall, for the first 3 years of Evidence-Based Funding implementation, be the CWI initially developed by the National Center for Education Statistics, as most recently updated by Texas A&M University. In the fourth and subsequent years of Evidence-Based Funding implementation, the State Superintendent shall re-determine the CWI using a similar methodology to that identified in the Texas A&M University study, with adjustments made no less frequently than once every 5 years.”*

In November of 2020, Mr. Martire (Chair of PRP Recalibrate Committee) stated *“...that the main reason the Regionalization Factor was put into statute is that all of the elements in the EBF are based on statewide average costs. Mr. Martire stated that the challenge was that Texas A&M has not done any updates, so it is a very old adjustment amount. He said that the committee could dig directly into the methodology considered by Texas A&M researchers and try to replicate it and update it in partnership with ISBE going forward. He stated that the statute charges the committee with doing so and that it is something that has to be done by the end of the year in collaboration with ISBE.”*

This statement indicates the urgency and need for the undertaking re-determination. Baker Tilly recommends that this redetermination work, due to urgency and potential impact, be undertaken immediately. At this point, the CWIFT model is now nearly four years out of date, and it is not our recommendation to simply move forward with the CWIFT model immediately.

Baker Tilly recommends the State Superintendent shall re-determine or immediately delegate the re-determination of the CWI using a similar methodology to that identified in the Texas A&M University study made no less frequently than once every five years. This work shall be completed prior to the SY23-24 allocation.

Additionally, throughout the audit process, the Baker Tilly team identified a lack of alignment in ISBE processes and procedures to the COSO Framework and best practices across all datasets and adjustments.

One of the primary benefits to implementing the COSO Framework is that it helps business processes to be performed in a uniform manner according to a set of internal controls. Depending on how these controls are designed, they can improve efficiency while also reducing risks.

Control Environment is the most important component in the COSO Framework. Control environment is defined by the “tone at the top,” how management at ISBE incorporates risk-awareness and control activities into the daily work routines in their area moving forward will be crucial.

The importance of Internal Control in the Operations and Reporting of an entity cannot be over-emphasized as the existence or the absence of the process determines the quality of output produced. A present and functioning Internal Control process provides everyone with a “reasonable assurance” that the amounts presented in the Evidence-Based Funding Formula are accurate and can be relied upon for informed allocation.

Please find information related to the COSO Framework in Appendix C.

Recommendations related to Other Matters (Section D)

In relation to the **Other Matters** the Illinois State Board of Education can take no unilateral action to resolve the matters described in the **Other Matters** section above. Resolution of these matters will require action by the General Assembly of the State of Illinois to adjust or clarify the language of the statute to resolve the conflicts and ambiguities that were discussed above. Therefore, we recommend engaging with the General Assembly to resolve these matters through adjustments to the statute, if possible.

Management Response to Finding

ISBE will recommend to the Professional Review Panel's Recalibrate Committee to complete the work started in calendar year 2020 regarding a recommendation for a new CWI.

Conclusion

Baker Tilly requested, reviewed, and validated thousands of data points and calculations within the Evidence-Based Funding calculation workbooks for fiscal years 2018 through 2022. Sixty Organizational Units were sampled utilizing a risk based and stratification methodology. Present and prescribed internal controls were then tested for exception, deficiency, and alignment with the COSO Framework.

Additionally, thousands of formulas within the underlying formula throughout the workbooks for fiscal years 2018 through 2022 were reconciled to legislation, inclusive of multiple legislative changes, defining the Evidence-Based Funding Formula (105 ILCS 5/8-8.15).

Finally, 25 adjustments that were included in the Evidence-Based Funding calculation workbooks for fiscal years 2018 through 2022 were tested for accuracy, support, and legislative alignment. Adjustments occurred in fiscal years 2018 through 2020, no adjustments took place in fiscal years 2021 and 2022. All adjustments sampled were properly supported by evidence and approved in accordance with ISBE policy.

The results of our internal audit procedures did not identify exceptions to the data points utilized in the Evidence-Based Funding Formula calculations for the Organizational Units sampled. All formulas tested within scope could be reconciled back to legislation within the Evidence-Based Funding law (105 ILCS 5/8-8.15) or, where applicable, verified as described in the Other Matters detailed in Section D. The lone exception identified throughout was a lack of compliance related to the CWI utilized in fiscal year 2021 and fiscal year 2022 Evidence-Based Funding Formula calculations, as noted within the finding statement of Section A.

Section A: Evidence-Based Funding Formula(s) Testing

Summary of Inputs

Section A included a review of the following datasets and corresponding calculations:

Data Set	Provider/Source
Low-Income Students	Illinois Department of Human Services
Average Student Enrollment	Data Strategies and Analytics Department - ISBE and Software Solutions Department - ISBE
English-Language Learners	Data Strategies and Analytics Department - ISBE and Software Solutions Department - ISBE
Comparable Wage Index	Texas A&M
Average Salaries by Position	Data Strategies and Analytics Department at ISBE
Unfunded Liability for CPS 299	Chicago Teachers Pension Fund

Baker Tilly reviewed data used by ISBE to input data points into Evidence-Based Funding Formula (EBF) for fiscal years 2018 through 2022. For low-income students, we reviewed final and draft low-income count data provided by the Illinois Department of Human Services (IDHS) to ISBE for 2018–2022, geocoded student data provided by the Department of Data Strategies and Analytics (DSA) for 2018–2022, the 2018–2022 ISBE EBF formula workbooks, and we conducted interviews with ISBE staff.

For average student enrollment and English-language learners, we reviewed Excel workbook summary level data compiled by Data Warehouse staff for 2018–2022, the 2018–2022 EBF formula workbooks, final and draft English-language learner snapshot/summary data provided by the Student Information System (SIS) for input into the EBF calculation, and we conducted interviews with ISBE staff and performed walkthroughs to gain an understanding of how these data elements are utilized throughout the formula.

For CWI, we reviewed final and draft CWI data from Texas A&M provided by the State Funding and Forecasting (SFF) Department, and the EBF formula workbooks for each fiscal year within the scope of the audit.

For average salaries by position, we reviewed Excel data compiled by Data Warehouse staff from the Employment Information System (EIS).

Lastly, for the Unfunded Liability for CPS 299, we reviewed the certification letter of Chicago Public Schools Pension Liability that is provided to the Illinois State Board of Education each year by the Chicago Teachers Pension Fund.

Summary of Testing Procedures and Results

Baker Tilly performed sample-based testing on 60 Organizational Units, consistent across each fiscal year, to determine whether the data inputs collected were appropriately and adequately utilized and facilitated by effective internal controls over the calculations. For low-income students, we verified that the total low-income population in the IDHS summary workbooks was properly summarized and accurately included in the EBF calculation for each selected Organizational Unit. Additionally, we verified that the amounts identified in the geocoded student data provided by DSA were properly added to the low-income totals for each Organizational Unit.

For average student enrollment and English-language learners, we verified that each selected Organizational Unit was included in the summary level data provided by the SIS and compiled by Data Warehouse staff. We verified that the data was appropriately input into the EBF calculations performed by ISBE, and we compared the values input into the calculation spreadsheets with those in the summary level data provided to ISBE.

For CWI, we verified that the correct values from Texas A&M were used in the EBF formula based on the documented average student enrollment. We have a finding for CWI that was reported to ISBE regarding the CWI to be utilized after the first 3 years of implementing the Evidence-Based Funding Formula.

For average salaries by position, we verified that the correct values compiled by Data Warehouse from the EIS were used in the EBF formula calculation.

Each year, the calculation must reduce the Local Capacity Target of Chicago Public Schools District 299 by the school board's remaining contribution as required by ILCS 5/18-8.15(c)(2)(D) and as certified by the Chicago Teachers Pension Fund. We requested the annual certification for each year in which legislative testing was performed and verified that the correct amount was removed from the Local Capacity Target for Chicago Public Schools District 299.

Summary of Finding

Based on the results of the testing procedures performed, we found no exceptions for fiscal years 2018 through 2020 Evidence-Based Funding Formula calculations. A summary of the finding for the 2021 and 2022 fiscal years can be found below.

Fiscal Years 2021 and 2022

#	Criteria	Detailed Finding	Result
#1	<p>105 ILCS 5/18-8.15(a)(4): “(4) As used in this Section, the following terms shall have the meanings ascribed in this paragraph (4): ... “Comparable Wage Index” or “CWI” means a regional cost differentiation metric that measures systemic, regional variations in the salaries of college graduates who are not educators. The CWI utilized for this Section shall, for the first 3 years of Evidence-Based Funding implementation, be the CWI initially developed by the National Center for Education Statistics, as most recently updated by Texas A&M University. In the fourth and subsequent years of Evidence-Based Funding implementation, the State Superintendent shall re-determine the CWI using a similar methodology to that identified in the Texas A&M University study, with adjustments made no less frequently than once every 5 years. ...”</p>	<p>Condition: CWI was not re-determined using a similar methodology to that identified in the Texas A&M University study. Instead, the original version, last updated in 2013, has been used for all years of Evidence-Based Funding calculation.</p> <p>Consequence: The effect of noncompliance with 105 ILCS 5/18-8.15(a)(4) exposes the Illinois State Board of Education to the potential risks associated with using noncompliant Comparable Wage Index data in Evidence-Based Funding calculation.</p> <p>Cause: Management stated the EBF statute created the Professional Review Panel “to study and review topics related to the implementation and effect of Evidence-Based Funding ...”</p> <p>Per 105 ILCS 5/18-8.15(i)(3)(A) and (B) the Panel “may also study the following topics at the direction of the chairperson: (A) The format and scope of annual spending plans referenced in paragraph (9) of subsection (h) of this Section. (B) The Comparable Wage Index under this section.”</p> <p>The work of reviewing and determining a new Comparable Wage Index was assigned to the Recalibrate Committee of the Panel. That committee discussed the topic during meetings in winter 2020. Specifically, the topic was discussed during meetings held on 11/4/20, 12/10/20 and 12/15/20. For a variety of reasons, the work was not completed.</p> <p>The Recalibrate Committee did not meet during 2021. In 2022 the committee resumed meetings. However, those meetings were focused on responding to House Resolution 722 and Senate Resolution 900.</p>	Non-Compliant

Impact of Finding

The effect of noncompliance with 105 ILCS 5/18-8.15(a)(4) exposes the Illinois State Board of Education to the potential risks associated with using an outdated Comparable Wage Index data in Evidence-Based Funding calculation. The use of an up-to-date Comparable Wage Index is essential to the calculation of an Organizational Unit's adequacy target each year. The adequacy target for each Organizational Unit is a major determining factor for the level of Evidence-Based Funding allocated to that unit. The use of an out-of-date Comparable Wage Index can result in an inaccurate allocation of tier funds for each year the Comparable Wage Index is not re-determined as required by statute.

Summary of Recommendations

Based on the tests performed for each of the selected data points on the 60 sampled Organizational Units, the data in the source documentation and corresponding formula calculations were accurately included in the EBF formula calculations. However, during process walkthroughs with ISBE staff, there were four examples of when ISBE has not formally documented, validated, or reviewed the EBF formula information that would support ISBE's internal control activities and contribute to the mitigation of errors in the EBF formula calculation.

Identified Control Gaps and Deficiencies

- No documented verification or review on whether the correct values from Texas A&M CWI are used.
 - We recommend that ISBE should ensure that documentation supporting control activities be maintained and filed accordingly.
- No validation or documented review of the data summary workbooks compiled by ISBE for low-income students.
 - We recommend that ISBE should ensure that documentation supporting control activities be maintained and filed accordingly.
- No documentation of the verification that is performed by ISBE of the total population of students in the low-income source data compared with the total in the EBF formula calculation.
 - We recommend that ISBE should ensure that documentation supporting control activities be maintained and filed accordingly.
- No documentation of the peer review validation process completed by Data Warehouse staff was provided prior to FY2022 for average salaries by position.
 - We recommend that ISBE should ensure that documentation supporting control activities be maintained and filed accordingly.

Committee of Sponsoring Organizations (COSO) Best Practices

Control Environment

- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives
- The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

- The organization identifies and assesses changes that could significantly impact the system of internal control.

Control Activities

- The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- The organization selects and develops general control activities over technology to support the achievement of objectives.
- The organization deploys control activities through policies that establish what is expected and procedures that put policies into place.

Information & Communication

- The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
- The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- The organization communicates with external parties regarding matters affecting the functioning of internal control

Monitoring Activities

- The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Impact of Improved Control Environment

Implementing the recommended COSO control activities, information and communication, and monitoring activities best practices outlined above will improve the control and risk environments surrounding the EBF formula calculation. Likewise, an improved control environment will provide reasonable assurance that the data used in the EBF formula calculation are handled in a way that is consistent with operations, reporting and compliance. Additionally, an improved system of internal control will reduce, to an acceptable level, the risk of future EBF formula errors resulting from source data management, and manipulation processes and procedures.

Section B: Evidence-Based Funding Formula(s) Testing

Summary of Inputs

Section B included a review of the following datasets and corresponding calculations:

Data Set	Provider/Source
Equalized Assessed Valuation (EAV) Amounts	Illinois Department of Revenue
Tax Rates by Purpose	Illinois Department of Revenue
Enterprise Zone Abatements (EAV)	Illinois Department of Revenue
PTAB Decisions (EAV)	Illinois Department of Revenue
General Authority Abatements (EAV)	Illinois Department of Revenue
Certificates of Error (EAV)	Organizational Units and Their Contractors

The Original Equalized Assessed Valuation (EAV) amount for each Organizational Unit is reported annually by the Illinois Department of Revenue (IDOR). After the Original EAV amounts are determined, there are four datasets that are used to potentially adjust the original valuation. These datasets include Enterprise Zone Abatements, General Authority Abatements and Property Tax Appeals Board Decisions, which are reported by IDOR to ISBE. The fourth dataset contributing to the Original EAV amount are Certificates of Error, which are reported to ISBE by Organizational Unit. These Certificates of Error use data between the most current tax year and six prior years.

Enterprise Zone Abatements are reductions in taxes collected on property located within an Enterprise Zone created pursuant to 35 ILCS 18-170. General Authority Abatements are reductions in taxes collected by a taxing district for the purposes listed in statute, 35 ILCS 200/18-165. Property Tax Appeal Board Adjustments (PTAB Decisions), per 35 ILCS 16-15, are the annual compilation of final adjustments made during the preceding calendar year by the State Property Tax Appeal Board to the aggregate assessed valuation of a school district for which such adjustments exceed \$250,000 or 2% of the aggregate assessed valuation of the Organizational Unit. Certificates of Errors are factual assessment errors that are discovered and are used to adjust the Original EAV amount.

Tax Rates by Purpose include Operating Tax Rates that contribute to the Adequacy Target. An Organizational Unit's Adequacy Target (AT) is the sum of all education cost factors as individually calculated for that Organizational Unit based on the investments set in EBF. The Operating Tax Rate calculation includes source data including Original EAV, Real EAV, AFR Transportation Revenues and Expenses, and Transportation Rates. All contributions determine Adjusted Operating Tax Rate and Final Operating Tax Rate that is used in the Evidence-Based Funding Formula.

Summary of Testing Procedures

Baker Tilly tested each of the six datasets in Section B, individually, by each of the Fiscal Years in the scope period. ISBE provided Baker Tilly with source documents from County Clerks, Illinois Department of Revenue, and Organizational Units to confirm totals amounted in the Evidence-Based Funding Formula Calculation spreadsheet. Each dataset was traced back to supporting documentation, and applicable calculations were reperformed and verified as to the accuracy within the Evidence-Based Funding Formula Calculation spreadsheet for the Organizational Units sampled. The results of these procedures did not identify exceptions regarding the information used in the Evidence-Based Funding Formula and the corresponding calculations.

Testing Results

No exceptions were identified as the result of our procedures.

Summary of Recommendations

Recommendations surrounding identified control gaps and deficiencies involve segregation of duties, documented review and approvals, and written policies required for the review process. During Baker Tilly's testing of source documents prepared by external parties and provided by ISBE staff, it was noted that numbers can be altered. The support provided by the Illinois Department of Revenue was subject to possible changes, as the document was able to be edited, prior to submission to ISBE staff. EAV data that was provided to ISBE by the Illinois Department of Revenue and/or County Clerks that required manual data entry to the calculation spreadsheet, did not have a documented review. The personnel that input data should be different than the data reviewer, and the reviewer's signature and date of review should be documented. Written policies for the document review would provide directive internal controls and improve the control environment.

Identified Control Gaps and Deficiencies

- The Illinois Department of Revenue PTAP CSV files, containing Original EAV and tax rate amounts, are not locked and can be manually manipulated by ISBE personnel. Due to the necessity of having an unlocked version of the data for input purposes, it is imperative that the original version obtained by ISBE is locked and preserved. Receiving locked and unlocked versions of the same PTAP CSV files, simultaneously, from the Illinois Department of Revenue mitigates risk. Having controls in place to confirm totals from unlocked and locked versions would also mitigate risk.
 - We recommend that ISBE implement a procedure that requires the Illinois Department of Revenue to provide locked and unlocked data files and that a control activity be performed and documented to verify that the amounts utilized in the Evidence-Based Funding calculations are reconciled back to the locked data files.
- Documented review of manual data input surrounding all EAV datasets into Evidence-Based Funding Formula page
 - We recommend that ISBE should ensure that documentation supporting control activities be maintained and filed accordingly.

Committee of Sponsoring Organizations (COSO) Best Practices

Control Environment

- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives
- The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

- The organization identifies and assesses changes that could significantly impact the system of internal control.

Control Activities

- The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- The organization selects and develops general control activities over technology to support the achievement of objectives.
- The organization deploys control activities through policies that establish what is expected and procedures that put policies into place.

Information & Communication

- The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
- The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- The organization communicates with external parties regarding matters affecting the functioning of internal control

Monitoring Activities

- The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Impact of Improved Control Environment

Implementing the recommended COSO control activities, information and communication, and monitoring activities best practices outlined above will improve the control and risk environments surrounding the EBF formula calculation. Likewise, an improved control environment will provide reasonable assurance that the data used in the EBF formula calculation are handled in a way that is consistent with operations, reporting and compliance. Additionally, an improved system of internal control will reduce, to an acceptable level, the risk of future EBF formula errors resulting from source data management, and manipulation processes and procedures.

Section C: Evidence-Based Funding Formula(s) Testing

Summary of Inputs

Section C included a review of the following datasets:

Data Set	Provider/Source
Limiting Rates	Illinois Department of Revenue
Limiting Rates - Secondary Source	County Clerks
Corporate Personal Property Replacement Tax (CPPRT) Revenue	Illinois Department of Revenue
AFR Transportation Expenditures	School Business Services Department - ISBE
Transportation Revenue	Funding and Disbursements Department - ISBE

In addition to any files used to perform data entry, the following source data inputs were reviewed for each dataset for each year in the scope period:

Limiting Rates, Limiting Rates – Secondary Source

- Preliminary Limiting Rates used in EBF Calculations Reported by County Clerks and the Illinois Department of Revenue (IDOR)

Corporate Personal Property Replacement Tax (CPPRT) Revenue Preliminary

- Illinois Department of Revenue Receipts Data

AFR Transportation Expenditures

- Annual Financial Report Transportation Expenditures

Transportation Revenue

- State Transportation Reimbursements

Please note, the inputs and calculations for the fiscal year 2021 Evidence-Based Funding workbook were not tested for the data sets within this section as Evidence-Based funding awarded for fiscal year 2021 and funding remained consistent with the 2020 Evidence-Based Funding allocations.

Summary of Testing Procedures

For these datasets, testing was focused on ISBE's data collection, review, and verification. The purpose of testing was to evaluate the control environment in place that ensures data inputs for each Organizational Unit were used in the EBF calculation accurately and completely.

Relevant documentation for each data set in the selected sample of 60 Organizational Units was requested. Based on interviews and process walkthroughs with key ISBE personnel, the audit team mapped State Funding & Forecasting's (SFF) existing processes and procedure steps for data collection, review, and verification. The audit team identified existing SFF control activities and developed testing procedures to test those controls. The audit team conducted testing for each applicable year of the scope period, fiscal years 2018 through 2022 of the Evidence-Based Funding formula calculations.

Testing Results

The audit team was able to agree all amounts and calculation values back to supporting documentation, in addition to formula testing performed in the EBF workbooks.

Identified Control Gaps and Deficiencies

Control activities are inconsistently performed, inconsistently documented, and for one data set, do not exist. Below you will find control deficiencies identified by dataset.

Limiting Rates

- In FY2018, no comparison between IDOR provided Limiting rates and SFF staff researched limiting rates was performed. Out of 60 sampled Organizational Units, there was a variance between the IDOR reported value and the SFF researched value for five Organizational Units. The SFF researched value was used in each case without a documented explanation.
- In FY2019, out of 60 Organizational Units sampled, SFF research showed a limiting rate for two Organizational Units in which IDOR data showed a rate of 0.0000. In both cases the rate supported by SFF research was used in the calculation without a documented explanation.
- In FY2022, out of 60 Organizational Units sampled, there was no second-rate check included in the documentation, for one Organizational Unit.
- Given that the researched rate was used in the calculation each time, there were no variations between the rates used in the Evidence-Based Funding calculation and the rates supported by the source documentation provided by the Illinois State Board of Education.

Corporate Personal Property Replacement Tax (CPPRT) Revenue

- There were no variances identified in this dataset. However, manual reconciliation activity performed by the State Funding & Forecasting Department on CPPRT data inputs that ensure a consistent percentage change in every Organizational Unit year over year was not provided for the FY2018 calculation.

AFR Transportation Expenditures

- Source data provided by School Business Services and the calculation data input for AFR transportation expenditures were compared by the audit team and no variances were noted. However, there is no tangible evidence of internal controls related to the reconciliation of AFR transportation expenditures. Documentation of reconciliation activities was not provided for any year examined.

Transportation Revenue

- There were no variances in the comparison between source data and values used in the formula calculations within the scope period. However, there is no tangible evidence of internal controls related to the reconciliation of transportation revenues that verify whether revenue amounts for each Organizational Unit are accurate, and used in the EBF calculation correctly, or if revenue data within the EBF calculation is complete.
- An annual reconciliation of transportation revenue data provided by Funding & Disbursements is performed for the purpose of identifying entities that do not receive tier funding, to ensure that they are not used in the calculation. However, the reconciliation files do not appear to identify any Organizational Units that should have been omitted from the calculation. Further, documentation of reconciliation activity was incomplete and provided only for FY20, FY21, and FY22.

Impact of Internal Control Weaknesses

- The absence of an internal control framework and the weakness in existing operational controls could potentially impact the accuracy of the EBF calculation. ISBE is more susceptible to material misstatements. Additionally, the ineffective control environment impacts the reliability of the annual calculation. This prevents auditors and stakeholders from reliably assessing the fairness of distributions, as well as increases exposure to reputational risk, given the high-profile nature of Evidence-Based Funding.

Summary of Recommendations

We recommend that ISBE prioritize the development of formal policies and procedures that will establish a control framework for data collection, review, and verification as it pertains to executing the Evidence-Based Funding calculation. These control activities should be built on strong governance and risk management practices reflective of the principles in the Committee of Sponsoring Organizations (COSO) framework, as defined below.

We recommend that ISBE requires internal control activities be documented for each dataset. Checklists and secondary peer-reviewed documented monitoring activities should be regularly incorporated into processes and procedures to ensure all control activities are being conducted properly. Further, ISBE should ensure that documentation supporting control activities be maintained and filed accordingly to strengthen transparency and accountability.

To manage the new control environment framework more effectively and efficiently, we recommend that ISBE also increase the State Funding & Forecasting staffing.

Committee of Sponsoring Organizations (COSO) Best Practices

Control Environment

- Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives
- The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

- The organization identifies and assesses changes that could significantly impact the system of internal control.

Control Activities

- The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- The organization selects and develops general control activities over technology to support the achievement of objectives.
- The organization deploys control activities through policies that establish what is expected and procedures that put policies into place.

Information & Communication

- The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

- The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- The organization communicates with external parties regarding matters affecting the functioning of internal control

Monitoring Activities

- The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

Impact of Improved Control Environment

Implementing the recommended COSO control activities, information and communication, and monitoring activities best practices outlined above will improve the control and risk environments surrounding the EBF formula calculation. Likewise, an improved control environment will provide reasonable assurance that the data used in the EBF formula calculation are handled in a way that is consistent with operations, reporting and compliance. Additionally, an improved system of internal control will reduce, to an acceptable level, the risk of future EBF formula errors resulting from source data management, and manipulation processes and procedures.

Section D: Evidence-Based Funding Formula(s) Testing

Summary of Inputs

Section D also included a review of the following datasets:

Data Set	Provider/Source
Evidence-Based Funding Calculation Workbook	Illinois State Board of Education

The following supporting documentation was reviewed related to the dataset described above:

Evidence-Based Funding Calculation Workbook

- An unlocked version of the workbook for each year in the scope period was provided for review.
- For each year formula testing was performed, a copy of the statute in effect at the time was used to verify the accuracy of the formulas within the workbook.

Please note, the formulas within the calculation workbook for fiscal year 2021 was not evaluated for accuracy as there was no new Evidence-Based tier funding awarded that year.

Summary of Testing Procedures

We were engaged to validate the accuracy of the Evidence-Based Funding calculation model by evaluating the calculations within the model to ensure that they were performed as intended by state statute.

For each of the sample Organizational Units, the audit team evaluated each calculation to validate the accuracy of the EBF calculation model to the corresponding state statute. Based on interviews and process walkthroughs with State Funding & Forecasting (SFF) personnel, the audit team obtained an understanding of how the model was developed and how the components of state statute were captured within the various calculations. Testing was performed chronologically by fiscal year to account for data elements and changes to the statute that impacted the calculation year to year.

Legislative changes within the scope period were reflected in the testing evaluation. The following legislation was used to conduct testing:

Fiscal Year	Legislation
2018	Public Act 100-0582
2019	Public Act 100-0582
2020	Public Act 100-0017
2022	Public Act 102-0558

An allocation of Evidence-Based tier funding was not performed for fiscal year 2021 and Organizational Units received an amount of funding equal to that received for fiscal year 2020 because there was no new Evidence-Based tier funding to be allocated for fiscal year 2021.

Each formula calculation was identified from every tab in the calculation workbooks for each fiscal year within the scope period. The legislative reference was identified and compared against applicable formulas. The audit team determined the formula equivalent of the legislative requirements and ensured that the calculation spreadsheet and all referenced cells within the workbook agreed with the expected formula.

The calculation workbooks include formulas that are not defined in the statute and whose function is to reference key data from within the workbook. Those formulas were not evaluated as part of this testing and testing of the referenced data was done separately as stated previously in the sections above.

Across all tabs from the calculation workbooks for all 60 Organizational Units, the audit team reviewed a total of 660 formulas. The audit team also verified the appropriation allocation, verified the Tier 1 target ratio calculation, verified Tier 2, 3, and 4 target ratios, verified the allocation rates for all tiers. Additionally, the audit team verified that constants used in the intermittent formula calculations agreed with values provided by legislation or were evaluated as described in the **Other Matters** section below, as applicable.

Testing Results

Across all fiscal years tested, each formula examined in the Evidence-Based Funding calculation workbook was determined to be accurate, including as described in the **Other Matters** section below, to the corresponding statute that was in effect during the appropriate fiscal year, no exceptions were noted.

Other Matters

Our testing procedures identified two calculation elements that we were unable to fully reconcile with the Evidence-Based Funding model as described in state statute 105 ILCS 5/18-8.15 and that warrant further explanation.

1. Recalibrated Per Pupil Elements

For each Organizational Unit that is included in the model, an adequacy target is established which serves to measure the minimum amount of funding for an Organizational Unit to be considered adequately funded. As a part of establishing each Organizational Unit's adequacy target, the model includes certain per pupil elements that each Organizational Unit will receive an amount of funding added to its adequacy target based on the average student enrollment of that Organizational Unit and a per student amount as defined in the applicable statutes, which have been provided below for reference*.

105 ILCS 5/18-8.15(b)(1):

"Each Organizational Unit's Adequacy Target is the sum of the Organizational Unit's cost of providing Essential Elements, as calculated in accordance with this subsection (b), with the salary amounts in the Essential Elements multiplied by a Regionalization Factor calculated pursuant to paragraph (3) of this subsection (b)."

105 ILCS 5/18-8.15(b)(2)(M):

"Gifted investments. Each Organizational Unit shall receive \$40 per kindergarten through grade 12 ASE."

105 ILCS 5/18-8.15(b)(2)(O):

"Instructional material investments. Each Organizational Unit shall receive \$190 per student of the combined ASE of pre-kindergarten children with disabilities and all kindergarten through grade 12 students to cover instructional material costs."

105 ILCS 5/18-8.15(b)(2)(P):

"Assessment investments. Each Organizational Unit shall receive \$25 per student of the combined ASE of pre-kindergarten children with disabilities and all kindergarten through grade 12 students to cover assessment costs."

105 ILCS 5/18-8.15(b)(2)(R):

"Student activities investments. Each Organizational Unit shall receive the following funding amounts to cover student activities: \$100 per kindergarten through grade 5 ASE student in elementary school, plus \$200 per ASE student in middle school, plus \$675 per ASE student in high school."

105 ILCS 5/18-8.15(b)(2)(S):

“Maintenance and operations investments. Each Organizational Unit shall receive \$1,038 per student of the combined ASE of pre-kindergarten children with disabilities and all kindergarten through grade 12 for day-to-day maintenance and operations expenditures, including salary, supplies, and materials, as well as purchased services, but excluding employee benefits. The proportion of salary for the application of a Regionalization Factor and the calculation of benefits is equal to \$352.92.”

105 ILCS 5/18-8.15(b)(2)(T):

“Central office investments. Each Organizational Unit shall receive \$742 per student of the combined ASE of pre-kindergarten children with disabilities and all kindergarten through grade 12 students to cover central office operations, including administrators and classified personnel charged with managing the instructional programs, business and operations of the school district, and security personnel. The proportion of salary for the application of a Regionalization Factor and the calculation of benefits is equal to \$368.48.”

**As stated in Public Act 102-0558*

The statute establishes a required fixed amount for each of the following per pupil elements: gifted student investments, instructional materials investments, assessment investments, student activities investment, maintenance and operations investments, and central office investments. However, the statute also includes a requirement that the State Superintendent “recalibrate” annually each of the elements listed above based on the study of average expenses as reported in the most recent annual financial report, which has been provided below*.

105 ILCS 5/18-8.15(h)(11):

“On an annual basis, the State Superintendent must recalibrate all of the following per pupil elements of the Adequacy Target and applied to the formulas, based on the study of average expenses and as reported in the most recent annual financial report:

- (A) Gifted under subparagraph (M) of paragraph (2) of subsection (b).*
- (B) Instructional materials under subparagraph (O) of paragraph (2) of subsection (b).*
- (C) Assessment under subparagraph (P) of paragraph (2) of subsection (b).*
- (D) Student activities under subparagraph (R) of paragraph (2) of subsection (b).*
- (E) Maintenance and operations under subparagraph (S) of paragraph (2) of subsection (b).*
- (F) Central office under subparagraph (T) of paragraph (2) of subsection (b).”*

**As stated in Public Act 102-0558*

The statute does not clearly indicate whether the required amount included in subsection (b) or the recalibrated amount is to be utilized in the calculation and does not provide a specific method for recalibration.

The Illinois State Board of Education and Professional Review Panel have established procedures for the recalibration of each of these values on an annual basis based on an interpretation of the statute. A study of average values is performed by the “Recalibrate Per Pupil Elements” Committee each year using the appropriate Annual Financial Report data. The Illinois State Board of Education office of School Business Services reviews the study and makes corrections to the information, as necessary. School Business Services then determines values to be recommended to the Professional Review Panel based on the study for each per pupil element that requires “recalibration.” For the fiscal year 2019, an average cost per pupil across all Organizational Units was determined for each element and was used to determine a recalibrated amount. Beginning in the fiscal year 2020 the following methods were used to determine a recommendation for recalibration each year:

- Gifted, Assessment, and Instructional Materials investments: To establish an equitable value for these elements, the average per pupil spending by Organizational Units that have an adequacy level of 90%-110% is recommended for each of these elements.
- Student Activities investments: An average per pupil spending for student activities for high schools statewide is determined and recommended each year. The recommended middle school per pupil average is 29% of the high school per pupil average. The recommended elementary school per pupil average is 50% of the middle school average. These percentages were determined using the original static values set by state statute.
- Maintenance and Operations and Central Office investments: The average per pupil spending is determined across all Organizational Units statewide and is recommended each year.

In all cases, if the average value described above is determined to be lower than the value used in the prior year, the prior year value will be recommended instead. The recommendations are presented to the Professional Review Panel at a public meeting to be discussed and vetted. The recommended values are then used in the calculation to determine each Organizational Unit's adequacy for the following fiscal year.

As subsection (b) mandates a fixed value to be utilized in the calculation and makes no reference to the recalibration process required by subsection (h), it is not clear whether the originally required amount or recalibrated amount should be used in the calculation for each per pupil element. Additionally, as subsection (h) does not specify a process for "recalibration" it is not possible to evaluate whether the process currently undertaken by the Illinois State Board of Education and the Professional Review Panel is accurate to the statute. To validate the accuracy of the Evidence-Based Funding calculation model in relation to these elements, we evaluated whether the process established by the Illinois State Board of Education and the Professional Review Panel was consistently applied for each year in which we tested the Evidence-Based Funding calculation model. The values used each year were consistent with the established processes as described above.

2. Minimum Tier 2 Funding

A key feature of the Evidence-Based Funding calculation model is that each Organizational Unit is divided into Tiers based on its adequacy level. Statute requires that new state funding be allocated to each tier on a prescribed basis. By definition, Tier 2 Organizational Units consist of all Tier 1 Organizational Units and all other Organizational Units, except for specially funded units, with a percent of adequacy less than 0.90. Tier 2 Organizational Units must receive no more than 49% of new State funds to be allocated by the Evidence-Based Funding calculation model. Statute also requires an initial allocation of new funds to be calculated for all Tier 2 Organizational Units and provides a specific method for performing such allocation.

To ensure equitable distribution of funding for all Tier 2 Organizational Units the statute, as referenced below*, requires that no Tier 2 Organizational Unit receive fewer dollars per average student enrollment than any Tier 3 Organizational Unit receives per average student enrollment.

105 ILCS 5/18-8.15(g)(2):

"To ensure equitable distribution of dollars for all Tier 2 Organizational Units, no Tier 2 Organizational Unit shall receive fewer dollars per ASE than any Tier 3 Organizational Unit. Each Tier 2 and Tier 3 Organizational Unit shall have its funding allocation divided by its ASE. Any Tier 2 Organizational Unit with a funding allocation per ASE below the greatest Tier 3 allocation per ASE shall get a funding allocation equal to the greatest Tier 3 funding allocation per ASE multiplied by the Organizational Unit's ASE. Each Tier 2 Organizational Unit's Tier 2 funding allocation shall be multiplied by the percentage calculated by dividing the original Tier 2 Aggregate Funding by the sum of all Tier 2 Organizational Unit's Tier 2 funding allocation after adjusting districts' funding below Tier 3 levels."

**As stated in Public Act 102-0558*

The statute also prescribes a method for reallocating Tier 2 funds to bring Tier 2 Organizational Units that were allocated less new funding per average student enrollment when compared to the Tier 3 Organizational Unit that received the highest allocation of new funding per average student enrollment for that year. As written in the statute referenced above, it is not possible for the reallocation method required by the statute to result in each Tier 2 Organizational Unit receiving at least as many dollars per average student enrollment as the Tier 3 Organizational Unit that receives the highest amount of dollars per average student enrollment as is required by the statute. The table below summarizes the outcomes of application of the reallocation method prescribed in the statute referenced above on an annual basis:

Impact: Tier 2 Reallocation Process Across All Organizational Units					
	2018	2019	2020	2021**	2022
Maximum Tier 3 Funding allocation per ASE	\$33.31	\$28.15	\$36.30	\$36.30	\$32.29
Minimum Tier 2 Funding allocation per ASE (Before Tier 2 reallocation)	\$0.31	\$0.07	\$0.02	\$0.02	\$0.11
Number of Tier 2 Organizational Units receiving less dollars per ASE (Before Tier 2 reallocation)	92	92	118	118	99
Number of Tier 2 Organizational Units receiving less dollars per ASE (After Tier 2 reallocation)	95	93	121	121	99
Minimum Tier 2 Funding allocation per ASE (After Tier 2 reallocation)	\$32.74	\$27.68	\$35.32	\$35.32	\$31.69

** The funding levels from 2020 were utilized in 2021 due to a lack of increased appropriations that year.

As full compliance with the statute referenced above is not possible as written at any point during the period of this engagement, to perform sample-based testing to validate the accuracy of the Evidence-Based Funding calculation model we evaluated whether the reallocation calculation as described in statute was utilized for the reallocation process. We determined that the Illinois State Board of Education used the required reallocation method for all applicable Organizational Units tested.

Summary of Recommendations

There were no findings that resulted from our procedures related to validating the accuracy of the Evidence-Based Funding calculation model.

The following recommendations relate to the other matters described above:

- The Illinois State Board of Education can take no unilateral action to resolve the matters described in the other matters section above. Resolution of these matters will require action by the General Assembly of the State of Illinois to adjust or clarify the language of the statute to resolve the conflicts and ambiguities that were discussed above. We recommend engaging with the General Assembly to resolve these matters through adjustments to the statute, if possible.

Section E: Evidence-Based Funding Calculation Adjustments Testing

Summary of Inputs

Inputs surrounding Evidence-Based Funding Calculation Adjustments as reported within the Evidence-Based Funding calculation workbooks for fiscal years 2018 through 2022. Adjustments were present in the fiscal year 2018 through 2020 calculation workbooks, however, no Adjustments were reported in the fiscal year 2021 and 2022 calculation workbooks.

Summary of Testing Procedures

Baker Tilly randomly selected a sample of 25 adjustments to be tested. For each sampled adjustment, tests were performed to determine if the adjustment was supported by evidence (e.g., source data) and approved in accordance with ISBE policy. It is important to note that in several instances adjustments identified for testing were the same amount in multiple Evidence-Based Funding calculation workbooks. If a sampled adjustment was the same amount in multiple fiscal year calculation workbooks, we performed testing on these amounts for each year the adjustment related to. This approach resulted in more than 25 adjustments being tested in total.

Baker Tilly conducted a series of interviews and walkthroughs to gain an understanding of how adjustments are determined and applied to the Evidence-Based Funding calculation workbooks for fiscal years 2018 through fiscal year 2022.

From these procedures it was determined that the majority of the adjustments applied to the Evidence-Based Funding Formula calculations for fiscal years 2018 through 2020 were related to amounts identified by ISBE through audit procedures for the recovery of non-EBF funding provided to Organizational Units in previous years. ISBE applied these recovery amounts as an adjustment in the Evidence-Based Funding Calculation after EBF calculations were completed to present the net EBF Funding that was to be provided to the Organizational Unit because of these recovered funds. For adjustments applied to the EBF calculations that related to these matters we were able to review appropriate supporting documentation regarding the recovered funds identified by ISBE.

During our testing we also sampled an adjustment to an Organizational Unit's EBF funding calculation that was the result of additional information being provided to ISBE relating to a General Authority Abatement report that was not previously provided. This information resulted in an adjustment to increase the Organizational Units Evidence-Based Funding calculation amount. We were able to review appropriate supporting documentation regarding this adjustment.

Testing Results

No exceptions were identified as the result of our procedures.

Summary of Recommendations

No recommendations

Appendices

Appendix A

SBE - State Board of Education

Purchase Order

Release Order Number

21-416CMS-BOSS4-P-
26279:8

Master Contract? Y
Master Con/Ref #: 9100001287
Contract/PO #:

V	Vendor Number: V00002529
E	BAKER TILLY US, LLP
N	205 N. Michigan Avenue
D	Chicago, IL 60601
O	viki.hellenbrand@bakertilly.com
R	null

VENDOR INSTRUCTIONS:

PURCHASE ORDER REQUIREMENTS - STATE OF ILLINOIS AGENCIES

Prior to commencement of billable work, delivery of supplies or rendering of any service on a Purchase Order.

- Initial Purchase Order/Contract - All parties, including the State and vendor, must fully execute the contract in its entirety.
- Release from an existing Purchase Order/Contract - The vendor must receive a Purchase Order signed by the State Agency and attached in BidBuy. Note, for any additional requirements see specific State Agency instruction.

PURCHASE ORDERS REQUIREMENTS - OTHER PURCHASING ENTITIES

- Please see specific requirements provided by the purchasing entity.

S H I P	Central Receiving Center 100 North First Street, Concourse Springfield, IL 62777 US Email: spower@isbe.net (217) 555-5555
T O	
B I L L	Central Receiving Center 100 North First Street, Concourse Springfield, IL 62777 US Email: spower@isbe.net (217) 555-5555
T O	

Shipping Method: Shipping Terms: Solicitation (Bid) No.: N/A Release Begin Date: 06/07/2022					Release End Date: 12/31/2022					Freight Terms: Payment Terms: NA Delivery Calendar Day(s) A.R.O.: 30																						
Item # 1 Class-Item 946-20 Audit Staff Rate - Hourly: Must have Statement of Work delineating the scope, project, staff name, hourly rate, estimated value, deliverables, timelines, and an overall not-to-exceed amount.																																
<table><tr><td>Quantity</td><td>Unit Price</td><td>UOM</td><td>Discount %</td><td>Total Discount</td><td>Tax Rate</td><td>Tax Amount</td><td>Freight</td><td>Total Cost</td></tr><tr><td>536.00</td><td>\$ 130.00</td><td>HR</td><td>0.00 %</td><td>\$ 0.00</td><td></td><td>\$ 0.00</td><td>\$ 0.00</td><td>\$ 69,680.00</td></tr></table>															Quantity	Unit Price	UOM	Discount %	Total Discount	Tax Rate	Tax Amount	Freight	Total Cost	536.00	\$ 130.00	HR	0.00 %	\$ 0.00		\$ 0.00	\$ 0.00	\$ 69,680.00
Quantity	Unit Price	UOM	Discount %	Total Discount	Tax Rate	Tax Amount	Freight	Total Cost																								
536.00	\$ 130.00	HR	0.00 %	\$ 0.00		\$ 0.00	\$ 0.00	\$ 69,680.00																								
Item # 2 Class-Item 946-20 Audit Management Staff Rate - Hourly: Must have Statement of Work delineating the scope, project, staff name, hourly rate, estimated value, deliverables, timelines, and an overall not-to-exceed amount.																																
<table><tr><td>Quantity</td><td>Unit Price</td><td>UOM</td><td>Discount %</td><td>Total Discount</td><td>Tax Rate</td><td>Tax Amount</td><td>Freight</td><td>Total Cost</td></tr><tr><td>2424.00</td><td>\$ 175.00</td><td>HR</td><td>0.00 %</td><td>\$ 0.00</td><td></td><td>\$ 0.00</td><td>\$ 0.00</td><td>\$ 424,200.00</td></tr></table>															Quantity	Unit Price	UOM	Discount %	Total Discount	Tax Rate	Tax Amount	Freight	Total Cost	2424.00	\$ 175.00	HR	0.00 %	\$ 0.00		\$ 0.00	\$ 0.00	\$ 424,200.00
Quantity	Unit Price	UOM	Discount %	Total Discount	Tax Rate	Tax Amount	Freight	Total Cost																								
2424.00	\$ 175.00	HR	0.00 %	\$ 0.00		\$ 0.00	\$ 0.00	\$ 424,200.00																								

TAX:	\$ 0.00
FREIGHT:	\$ 0.00
TOTAL:	\$ 493,880.00

The undersigned agree to the Terms and Conditions as acknowledged by the Vendor and maintained in the State of Illinois' e-procurement system. This agreement consists of all terms as maintained in the state's e-procurement system inclusive of attached documents. The Vendor affirms that the Certifications and Financial Disclosures and Conflicts of Interest are true and accurate as of the date of the Vendor's execution of this Agreement. State documents will prevail in the event of a conflict between State and Vendor documents and information. The undersigned agree to the Terms and Conditions of this agreement:

OFFICIAL SIGNATURES:

Vendor Name: Baker Tilly US, LLP
Vendor Signature: Kyle O'Rourke Digitally signed by Kyle O'Rourke
Date: 2022.05.31 13:22:06 -05'00'
Printed Name: Kyle O'Rourke
Title: Principal
Phone #: (312)228-7248
Email: kyle.ourourke@bakertilly.com
Date: May 31, 2022

State of Illinois Agency or Other Purchasing Entity
Procuring State Agency or Entity: Dr. Carmen I. Ayala Digitally signed by Dr.
Carmen I. Ayala
Date: 2022.06.07
07:43:50 -05'00'
Official Signature: Ayala

Printed Name: Dr. Carmen I. Ayala
Title: State Superintendent of Education
Designee Signature: _____
Printed Name: _____
Title: _____
Date: _____

Legal Signature: Jeremy D. Duffy Digitally signed by Jeremy
D. Duffy
Date: 2022.06.01
10:24:06 -05'00'
Printed Name: Jeremy D. Duffy
Title: Legal Officer
Date: _____

Fiscal Signature: Robert Wolfe Digitally signed by Robert
Wolfe
Date: 2022.05.31
13:47:26 -05'00'
Printed Name: Robert Wolfe
Title: Financial Officer
Date: _____

FOR STATE OF ILLINOIS USE ONLY:

Acq. Type: _____ Source Sel. Method: _____
Using Agency Funding Source: _____
Detailed Expenditure Object Code: _____
Approp. Acct Code: _____
Award Code: _____
Original Proc. Method: _____
Subcontractors Disclosed: _____
Subcontractors Utilized: _____
Publication Date: _____ Financing Needed: _____
IPG Cert/Disclosure Yes _____ No _____

APPROVED

By: Sara Power
Phone#: (217) 785-8777
BUYER

Internal Auditing Assistance

Statement of Work

This Statement of Work is entered into by and between the Illinois State Board of Education ("Client") and Baker Tilly US, LLP ("Baker Tilly") pursuant to the **Master Contract (21-416CMS-BOSS4-P-26279)**. This SOW is effective as of the last dated signature of the parties through December 31, 2022.

A. Audit/Review Completed:

Internal Audit for the Illinois State Board of Education

B. Audit Staff:

Prime Vendor: Baker Tilly

Subcontractors: Ringold Financial, Adelfia, TLS Consulting

C. Hourly Rate by staff:

Audit Staff @ \$130.00 per hour

Audit Senior and Management Personnel @ \$175.00 per hour

D. Estimated Number of Hours for Internal Audit Services:

Activities are estimated to take 2960 hours in four (4) phases:

Phase 1: Project Management & Kick-off

During Phase 1, Baker Tilly, in conjunction with the Client, will perform project initiation and kick-off activities. Tasks in this Phase include:

- Conducting a project kick-off meeting
- Issuing an initial data request
- Finalizing the project schedule and expected deliverables

Note that on-going project management is budgeted in this phase as well. On-going project management will consist of:

- Weekly status meetings with the project liaison
- Monthly written project status reports

Phase 2: Information Gathering & Interviews

During Phase 2, Baker Tilly will work to understand the EBF formula and relevant legislation, including the Illinois School Code (detailed at 105 ILCS 5/18-8.15). The purpose of Phase 2 is to develop an understanding of the calculation and prepare testing procedures accordingly. Tasks in this Phase include:

- Reviewing data requested, including but not limited to the calculation file, corresponding policies and procedures, and relevant prior audit work.
- Reviewing prior cross walk of legislation to calculation spreadsheet performed by ISBE. Note that we will work with Client legal where Baker Tilly has questions as to interpretation of the legislation.
- Developing testing procedures to test:
 - Data collection, review and verification
 - Formula and calculation development
 - Corrections and adjustments
- Review and seek approval of testing procedures with the Client.

Phase 3: Testing & Analysis

In Phase 3, Baker Tilly will perform audit testing procedures as outlined and approved in Phase 2.

There are four (4) areas of testing to be performed. The following is the preliminary testing plan:

Data collection, review, and verification

The accuracy of the calculation is dependent on the accuracy of data inputs. The purpose of this test is to determine, on a sample basis, if the inputs collected correspond appropriate to the period in question. The following test procedures will be performed:

- Select a sample of 60 school districts using a risk based and stratified sample. Note that we will identify potential risks to calculation error in Phases 1 and 2 and identify a sample selection that aligns to areas of high risk. We will also consider stratification strategies based on school district tier, size, location, and other factors as identified.
- Request documentation used by ISBE to input the following data points for the fiscal years 2018, 2019, 2020, 2021, and 2022
 - Note that where data sources are provided by a third party with no intermediary calculation steps, Baker Tilly will not perform procedures to determine accuracy of the data itself. Where the Client performs intermediate calculations with source data, Baker Tilly will review, on a sample basis, the accuracy of the intermediate calculations. For purposes of this SOW, and intermediate step is defined as a calculation performed by ISBE with source data prior to entry/inclusion in the EBF calculation.

Data Set	Provider/Source
Equalized Assessed Value (EAV) Amounts	Department of Revenue
Tax Rates by Purpose	Department of Revenue
Enterprise Zone Abatements (EAV)	Department of Revenue
General Authority Abatements (EAV)	Department of Revenue
PTAB Decisions (EAV)	Department of Revenue
Certificates of Error (EAV)	School Districts and Their Contractors
Limiting Rates	Department of Revenue
Limiting Rates - Secondary Source	County Clerks
Corporate Personal Property Replacement Tax (CPPRT) Revenue	Department of Revenue
Low-Income Student Population	Department of Human Services
Average Student Enrollment	Data Strategies and Software Solutions, ISBE
English Learner Student Enrollment	Data Strategies and Software Solutions, ISBE
Comparable Wage Index	Texas A&M
AFR Transportation Expenditures	School Business Services, ISBE
Transportation Revenue	Funding and Disbursements, ISBE
Unfunded Liability for CPS 299	Chicago Teachers Pension Fund
Average Salaries by Position (Teacher, Principal, etc.)	Data Strategies, ISBE

- Perform tests on the sample to determine whether the data in the source documentation was accurately included in the EBF formula.
- Document exceptions and validate understanding with Client.

Formula and calculation development

Building on tests performed around data collection, Baker Tilly will perform sample based testing to validate the accuracy of the EBF calculation model. The following test procedures will be performed:

- Leverage the sample of 60 school districts selected for data collection testing
- For each of the sample school districts, test the accuracy of each calculation in the spreadsheet to measure accuracy of the model.
 - Note that Baker Tilly will work with the Client to understand how the model was developed and how the components of State Statute are captured within the various calculations
 - Note that the testing will be performed chronologically by fiscal year to account for data elements and contingencies that carry over year to year

- Document exceptions and validate understanding with Client

Corrections and adjustments

Baker Tilly will perform testing of corrections and adjustments to determine whether the corresponding policy for processing, validating, and approving corrections and adjustments were followed. The following tests will be performed:

- Randomly select a sample of 25 corrections and adjustments to be tested
- For each sampled correction and adjustment, perform tests to determine if the adjustment and correction was supported by evidence (e.g., source data) and approved in accordance with Client policy
- Document exceptions and validate understanding with Client

Phase 4: Reporting

In this phase, Baker Tilly will prepare a draft report, review the report with the project liaison, and finalize the report accordingly. Tasks to be performed include:

- Validate accuracy of all exceptions with the Client
- Prepare a draft report summarizing the conclusions of the internal audit activity
- Review the draft report with the client
- Finalize all workpapers and prepare for delivery
- Finalize the report and deliver to the client

E. Overall Not-To-Exceed Cost:

This audit is not expected to take 2960 hours of effort and is not to exceed \$507,380.

In preparing the cost estimate, Baker Tilly has the following assumptions:

- ISBE would provide any existing analysis that correlate the provisions in the EBF statute (105 ILCS 5/18-8.15) back to specific components of the EBF calculation, providing us with the rationale for why the individual calculations are in their current form.
- Should there be any ambiguous or unclear language identified in the statute, Baker Tilly will work with client legal to determine the appropriate interpretation. These matters will be documented in the report.
- The level of effort is limited to 2960 hours as outlined.
- For purposes of the cost estimate, we assume that each sampled school district will require 20 hours of testing to reperform calculations for years in question.
- The accuracy of the data inputs will not be tested. Rather, tests will be performed to validate the accuracy of inclusion of data points from source information into the calculation.
- A final report containing the final findings will be submitted for review to ISBE. Baker Tilly will work with ISBE staff to make any corrections necessary prior to final report release which will happen within 20 business days from the end of fieldwork.

- All data and information is readily available in electronic format.
- The EBF calculation is performed in Excel format.
- ISBE personnel will be available for and attend scheduled meetings.
- Documents are available and will be ready for review at agreed upon times.

F. Deliverables (per Section 1.2 of the contract):

Baker Tilly anticipates providing the following deliverables:

- A. Budgeted hours to actual (periodic status reports)
- B. Potential audit findings
- C. Draft audit report
- D. Final audit report
- E. Audit workpapers

G. Timelines:

Anticipated Start Date: 6/1/22

Anticipated End Date: 10/31/2022

H. Amendments

Any variation from the terms set forth herein must be mutually agreed upon and reduced to writing using a state approved form.

Baker Tilly will remit monthly invoices for payment, subject to the State Prompt Payment Act.

Liability associated with work completed under this SOW will be limited to two times (2x) fees paid.

AGREED TO AND ACKNOWLEDGED BY:

Baker Tilly US, LLP

BY: _____

Illinois State Board of Education

BY: _____

Appendix B

	<u>Organizational Unit Information</u>		<u>Region Number</u>	<u>Enrollment Group - BT Generated</u>	<u>EBF Tier Assignment</u>
Sample #	Organizational Unit ID	Organization Unit Name	FY 18 Region Number	FY18 ASE Group	EBF Tier Assignment FY18
1	19-022-0040-0200	ADDISON SCHOOL DIST 4	1	4	2
2	21-028-0910-0400	AKIN COMM CONS SCHOOL DIST 91	6	1	4
3	41-057-0110-2600	ALTON COMM UNIT SCHOOL DIST 11	5	4	1
4	04-004-1000-2600	BELVIDERE C U SCH DIST 100	2	4	1
5	19-022-0250-0200	BENJAMIN SCHOOL DISTRICT 25	1	2	4
6	17-064-0870-2500	BLOOMINGTON SCH DIST 87	4	4	2
7	30-002-0010-2200	CAIRO UNIT SCHOOL DISTRICT 1	6	1	2
8	30-039-1650-1600	CARBONDALE COMM H S DISTRICT 165	6	2	2
9	13-014-0010-2600	CARLYLE C U SCHOOL DISTRICT 1	6	2	2
10	13-014-0710-1600	CENTRAL COMMUNITY H S DIST 71	6	2	2
11	09-010-0040-2600	CHAMPAIGN COMM UNIT SCH DIST 4	4	4	2
12	07-016-1700-0200	CHICAGO HEIGHTS SCHOOL DIST 170	1	3	1
13	06-016-0990-0200	CICERO SCHOOL DISTRICT 99	1	4	1
14	15-016-2990-2500	CITY OF CHICAGO SCHOOL DIST 299	1	4	1
15	17-020-0150-2600	CLINTON C U SCHOOL DIST 15	4	2	4
16	41-057-0100-2600	COLLINSVILLE C U SCH DIST 10	5	4	1
17	05-016-0590-0400	COMM CONS SCH DIST 59	1	4	3
18	19-022-1800-0400	COMMUNITY CONS SCH DIST 180	1	2	4
19	19-022-0930-0400	COMMUNITY CONSOLIDATED S D 93	1	3	4
20	07-016-2300-1300	CONS HIGH SCHOOL DISTRICT 230	1	4	3
21	53-090-0760-0200	CREVE COEUR SCHOOL DISTRICT 76	3	2	1
22	54-092-1180-2400	DANVILLE C SCHOOL DIST 118	4	4	1

	<u>Organizational Unit Information</u>		<u>Region Number</u>	<u>Enrollment Group - BT Generated</u>	<u>EBF Tier Assignment</u>
Sample #	Organizational Unit ID	Organizational Unit Name	FY 18 Region Number	FY18 ASE Group	EBF Tier Assignment FY18
23	39-055-0610-2500	DECATUR SCHOOL DISTRICT 61	4	4	1
24	16-019-4280-2600	DEKALB COMM UNIT SCH DIST 428	2	4	1
25	53-090-0500-0200	DISTRICT 50 SCHOOLS	3	2	1
26	47-052-1700-2200	DIXON UNIT SCHOOL DIST 170	2	3	2
27	50-082-1890-2200	EAST ST LOUIS SCHOOL DIST 189	5	4	2
28	41-057-0070-2600	EDWARDSVILLE C U SCHOOL DIST 7	5	4	2
29	05-016-0650-0400	EVANSTON C C SCHOOL DIST 65	1	4	3
30	08-089-1450-2200	FREEPORT SCHOOL DIST 145	2	4	1
31	33-048-2050-2600	GALESBURG C U SCHOOL DIST 205	3	4	1
32	28-037-2280-2600	GENESEO COMM UNIT SCH DIST 228	2	3	2
33	19-022-0410-0200	GLEN ELLYN SCHOOL DISTRICT 41	1	3	4
34	04-101-1220-2200	HARLEM UNIT DIST 122	2	4	2
35	34-049-0730-0400	HAWTHORN C C SCHOOL DIST 73	1	4	2
36	56-099-0860-0500	JOLIET SCHOOL DIST 86	1	4	1
37	32-046-1110-2500	KANKAKEE SCHOOL DIST 111	4	4	1
38	19-022-1080-1600	LAKE PARK COMM H S DIST 108	1	3	4
39	56-099-2050-1700	LOCKPORT TWP HS DIST 205	1	4	2
40	19-022-0440-0200	LOMBARD SCHOOL DISTRICT 44	1	3	4
41	21-100-0020-2600	MARION COMM UNIT SCH DIST 2	6	4	2
42	50-082-0190-2600	MASCOUTAH C U DISTRICT 19	5	4	1
43	21-061-0010-2600	MASSAC UNIT DISTRICT #1	6	2	1
44	06-016-0890-0200	MAYWOOD-MELROSE PARK-BROADVIEW-89	1	4	1
45	17-064-0050-2600	MCLEAN COUNTY UNIT DIST NO 5	4	4	2

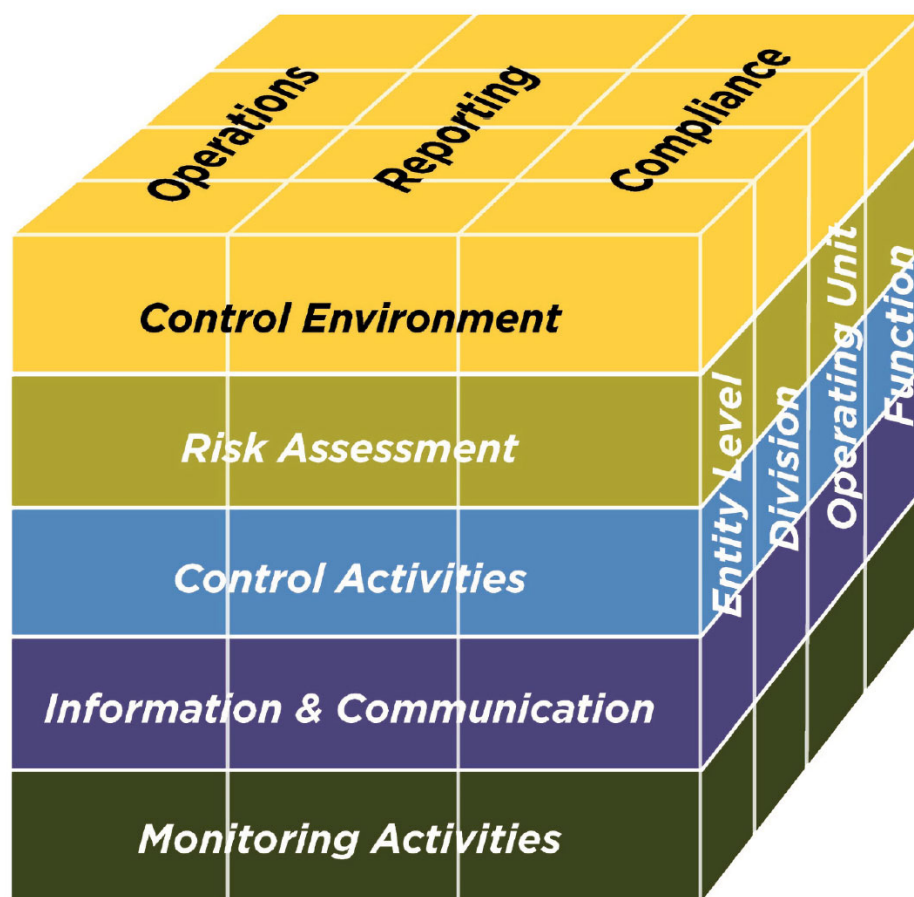
	<u>Organizational Unit Information</u>		<u>Region Number</u>	<u>Enrollment Group - BT Generated</u>	<u>EBF Tier Assignment</u>
Sample #	Organizational Unit ID	Organizational Unit Name	FY 18 Region Number	FY18 ASE Group	EBF Tier Assignment FY18
46	26-034-3250-2600	NAUVOO-COLUSA C U S DIST 325	3	1	3
47	07-016-1280-0200	PALOS HEIGHTS SCHOOL DIST 128	1	2	4
48	48-072-1500-2500	PEORIA SCHOOL DISTRICT 150	3	4	1
49	47-098-0030-2600	PROPHETSTOWN-LYNDON-TAMPICO CUSD3	2	2	2
50	01-001-1720-2200	QUINCY SCHOOL DISTRICT 172	3	4	2
51	12-017-0020-2600	ROBINSON C U SCHOOL DIST 2	6	2	3
52	49-081-0410-2500	ROCK ISLAND SCHOOL DISTRICT 41	2	4	1
53	51-084-1860-2500	SPRINGFIELD SCHOOL DISTRICT 186	3	4	2
54	16-019-4270-2600	SYCAMORE C U SCHOOL DIST 427	2	4	2
55	34-049-1130-1700	TOWNSHIP HIGH SCHOOL DIST 113	1	4	4
56	09-010-1160-2200	URBANA SCHOOL DIST 116	4	4	2
57	45-067-0050-2600	WATERLOO COMM UNIT SCH DIST 5	5	3	2
58	19-022-0330-0200	WEST CHICAGO SCHOOL DIST 33	1	4	1
59	05-016-0210-0400	WHEELING C C SCHOOL DIST 21	1	4	2
60	01-086-0010-2600	WINCHESTER C U SCH DIST 1	3	2	1

Appendix C

COSO Framework

The Committee of Sponsoring Organizations (COSO) Framework is a system used to establish internal controls to be integrated into business processes. Collectively, these controls provide reasonable assurance that the organization is operating ethically, transparently, and in accordance with established industry standards.

The COSO internal control framework was first introduced in 1992; an overhauled, more modern version arrived in 2013. Perhaps the most well-known image of the framework is the famed COSO cube, a three-dimensional diagram showing how the various elements of an internal control system work together.



The COSO framework classifies internal control objectives into three groups: operations, information, and compliance.

Operational objectives include performance measures and safeguarding the organization's assets against fraud. They focus on the effectiveness and efficiency of business transactions.

Reporting objectives, including internal and external financial reports and non-financial information, refer to the transparency, timeliness, and trustworthiness of the organization's reporting habits.

Compliance objectives are internal control targets based on adherence to governmental laws and compliance regulations.

The five components of COSO internal control are risk assessment, control activities, information and communication, control environment, and monitoring activities.

Risk Assessment

All organizations have risks and are exposed to factors that cause them not to reach their objectives. Risk assessments are performed to evaluate internal and external factors. Assessments provide reasonable assurance that organizations are managing risks to an acceptable tolerance.

Control Activities

Control activities are taken to mitigate risk at all levels of the organization. The COSO framework helps to assure that the control activities performed by organization members are effective for the company to achieve its goals and eliminate unnecessary risks.

Information and Communication

The controls provided by COSO help assure that productive communication occurs. This includes using consistent language and following best practices for sharing appropriate levels of information with the right stakeholders. Formal management business reviews and all-employee meetings, as well as informal chats and emails, fall under this component.

Control Environment

The control environment creates a top-down approach to drive the COSO Framework throughout the organization. It consists of a set of standards, processes, and procedures which are overseen and enforced by management. Establishing controls across the environment assures that standard practices and ethical values are used throughout the organization.

Monitoring Activities

Ongoing monitoring and internal audits of all internal control systems identify early signs of trouble and assure effectiveness. Metrics and reports are provided to management and the board of directors for ongoing evaluation. Information gathered and evaluated by regulators and auditors verify control activities. Audits of financial reporting also help with fraud deterrence.

Understanding the COSO framework can bring your organization significant benefits. It provides guidance on internal controls and how organizations should establish controls throughout their environment. A solid system of internal controls provides reasonable assurance that the organization operates ethically, transparently, and aligned with established industry standards.