PERFORMANCE AUDIT

Office of the Washington State Auditor
Pat McCarthy

Examining the Accuracy of School Funding Systems at OSPI

May 19, 2026

Report Number: 1039634

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Executive Summary

State Auditor's Conclusions (page 26)

The software system at the heart of this audit must make extremely complex calculations, which fund the education of more than 1 million Washington school children. The formulas are subject to change every year and must be highly accurate, as those calculations allocate $30 billion to school districts in a biennium. Yet this system, operated by the Office of Superintendent of Public Instruction, is outdated, a legacy IT system we found to be unstable and at risk of failure. Significant improvements can – and must – be made.

While our Office routinely audits individual school districts, this is the first comprehensive audit of OSPI's apportionment system. First developed in 2008, it has expanded to include eight additional software applications; our study produced the first mapping of its full complexity. For example, when we set out to test the system's accuracy, we identified 119 different calculations it performs to arrive at each school district's allotment. And because state laws about education change every year, OSPI must continually adjust the system to recognize new statutes.

Given the system's complexity, we limited our testing to three school districts. In each case, we found coding discrepancies in which state law and state budget did not align. They were relatively small discrepancies — for example, rounding to six decimal places instead of the required three. To reconcile the differences, OSPI followed the state budget.

Although OSPI staff work diligently to produce accurate allocations, we did not find the robust controls and documentation we would expect for such a large system. Instead, OSPI relies primarily on its IT vendor and a few longtime employees, who in turn rely on institutional memory to operate the system.

Recognizing the challenges inherent in OSPI's responsibilities, the report offers recommendations the agency can immediately implement to mitigate the risks we identified, some as straightforward as fully documenting staff processes. And while we recognize IT upgrades are costly and the needs high across state government, this legacy system must be replaced. For lawmakers, school districts and the public, we believe this report sheds needed light on a critical but largely unseen aspect of the state's education funding system.

Background (page 6)

The state's Constitution requires the Legislature to fund public K-12 education and state law establishes the formula for funding basic education for kindergarten through 12th grade students. State and local taxes form the basis of school funding sources and the Office of Superintendent of Public Instruction (OSPI) is responsible for managing the education funds provided by the state.

OSPI's calculations for school district funding allocations rely on data schools provide and its School Apportionment and Financial Services (SAFS) department to oversee that data. Nine staff in the SAFS department manage the suite of IT software applications used to gather, calculate and distribute education funding. The proper functioning of the entire suite of software applications comprising the apportionment system is critically important to ensuring school districts receive the correct monthly allotment of state and federal funds based on their actual activities. A failure in any one application that produced an incorrect funding calculation, and thus the wrong amount of funding, could disrupt schools' ability to pay teachers and manage their operations. This audit examined the apportionment system to see if it accurately calculates school funding.

OSPI's complex apportionment system is outdated and unstable, thus increasingly inefficient and at risk of errors (page 10)

The 17-year-old apportionment system's complex calculations rely on eight feeder systems and a shaky foundation. The system's suite of applications relies on an aging, unstable infrastructure foundation that struggles to meet business needs. In addition, legislative amendments require OSPI staff to frequently modify both formulas and system codes. The difficulties in making frequent modifications in the outdated systems mean staff resort to manual workarounds. OSPI is aware of these difficulties and has been working on rebuilding or replacing portions of the systems suite.

Weak controls for both core apportionment and feeder systems pose additional risks that essential data is not complete, accurate, secure and reliable (page 15)

OSPI leadership is responsible for ensuring the apportionment system is complete, accurate, secure and reliable. These four attributes of sound IT system management

rely on five control areas: General IT, system input, data processing, system output, and oversight and monitoring. OSPI lacks many essential controls in all five of these areas. In addition, OSPI lacks documentation of both internal controls and calculation processes and has no internal audit function. Lacking solid controls, OSPI relies on its vendor and a few longtime employees to ensure the apportionment system meets the four essential attributes.

Audit review of apportionment funding for three school districts identified relatively minor discrepancies (page 23)

The systemic issues identified during the audit prompted us to test apportionment system calculations. Our funding recalculations for three sampled schools found relatively minor discrepancies, which we identified by comparing statutory requirements to actual apportionment system calculations that were based on the state budget. It is important to remember that our limited review captures only the formula and calculations applied in the 2023-2024 school year. Assurance over accuracy in future calculations depends on OSPI addressing other issues found in this audit.

Recommendations (page 27)

We made a series of recommendations to the Office of the Superintendent of Public Instruction to address the risks associated with the outdated and unstable apportionment system and the lack of controls supporting the reliability, accountability, functionality and accuracy of the system. In addition, we made recommendations to OSPI to address staffing issues.

Next steps

Our performance audits of state programs and services are reviewed by the Committee to Hear SAO Performance Audits and/or by other legislative committees whose members wish to consider findings and recommendations on specific topics. Representatives of the Office of the State Auditor will review this audit with committee members in Olympia. The public will have the opportunity to comment at this hearing. Please check the committee's website for the exact date, time and location (https://leg.wa.gov/about-the-legislature/committees/joint/sao-audit-committee/). Our Office conducts periodic follow-up evaluations to assess the status of recommendations and may conduct follow-up audits at its discretion. See **Appendix A**, which addresses the I-900 areas covered in the audit. **Appendix B** contains information about our methodology.

Background

The state's Constitution requires the Legislature to fund public K-12 education

Multiple laws, rules and legal decisions set out the responsibilities the state of Washington bears for educating its children. Foundationally, Article IX of the state constitution, passed in 1889, requires the state to make provisions for their education, with all revenue raised to support schools used exclusively for that purpose. In addition, nearly 80 Revised Code of Washington (RCW) chapters define expectations and responsibilities of the state's school districts and schools. Finally, numerous Washington Administration Codes (WAC), House and Senate bills, and court decisions dictate and define the state's educational practices. (See Appendix B for a list of all laws and administrative rules reviewed for this audit.)

Also established in state law is the formula for funding basic education for kindergarten through 12th grade students. It requires the Legislature to decide the amount of money necessary to support the minimum staffing and administrative/operational costs of a prototypical school. State law does not, however, require schools to operate or be structured exactly like the prototypical model, as each school must operate to meet the needs of its local community.

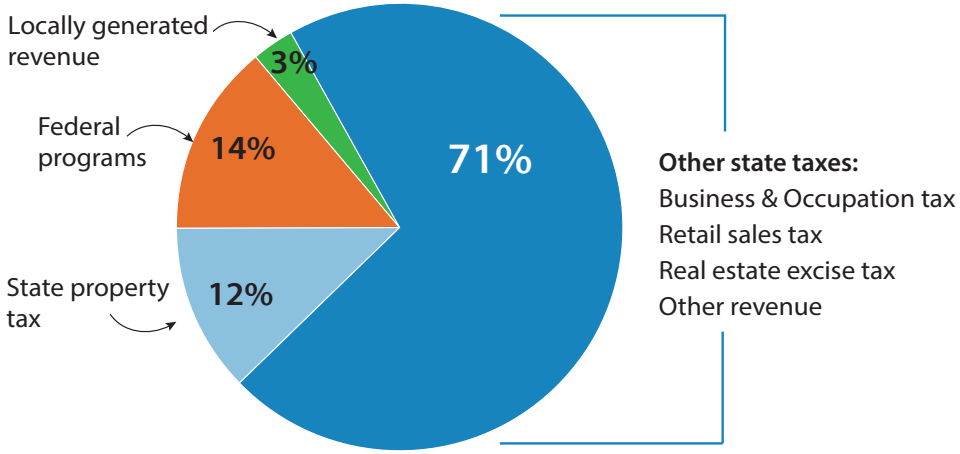
The Legislature adjusts educational funding every two years when it passes the state budget, but it can also change the funding model every year in any number of ways. In the 2023-2025 biennium, it allocated $30 billion for public education.

State and local taxes form the basis of school funding sources

According to the OSPI report to the Legislature titled "Organization and Financing of Washington's Public Schools," in the 2021-2022 school year, 295 school districts, seven tribal schools, 16 charter schools and nine Educational Service Districts were responsible for educating more than 1 million K-12 students. They were supported in large part through federal, state and locally collected revenues; the latter are collected and distributed by the county where a school district is located. **Exhibit 1** (on the following page) shows the proportion of revenue provided by federal, state and local sources in the 2021-2022 school year.

Exhibit 1 – Overall revenue sources for public K-12 education in Washington

2021-2022 school year



Source: OSPI report *Organization and Financing of Washington's Public Schools, 2023.*

The Legislature sets a statewide baseline amount for retail, property, and business and occupation taxes. Individual local governments may add county and city taxes on top of the state's required amount. Voters can approve additional local "enrichment levies" against property values to support their schools; these vary widely across the state. The revenue generated by levies goes directly to that district, to pay for enhancements, programs and services beyond the state's provisions.

The Office of Superintendent of Public Instruction is responsible for managing the education funds provided by the state

OSPI is the primary agency charged with overseeing K-12 public education in Washington. This agency, led by an independently elected State Superintendent, supports all Washington school districts with information related to student education and nutrition, school accountability and improvements, and special state and federal program administration. It holds special responsibility for allocating both state and federal funds to districts.

OSPI's calculations for school district funding allocations rely on data schools provide

State law and the Legislature's published budget bill describe the amount of K-12 funding to be distributed to all qualifying schools. Funds intended for K-12 education are directed to OSPI; the agency distributes more than 90% of its state-allotted budget to school districts. The remainder pays for a wide variety of central

agency programs and expenses, ranging from student supports and career and technical education to wages, training and administrative offices.

The Legislature may decide to change educational allocations at any point in the biennium. OSPI is responsible for updating the formulas and calculations it uses to distribute funding correctly as often as necessary. To calculate the amount of money for basic education due to each school district, OSPI requires all schools to collect and maintain accurate information about their students and a dozen or more other factors, including:

- The number of students enrolled at each school
- Staffing needs, including salaries and employee benefits
- Certain operating costs, such as transportation, meals and teaching materials

School districts must then deliver this information to OSPI at various times of the year. They do so by entering data into Smartsheets (a proprietary software, similar to Microsoft Excel spreadsheets), accessed through a secure, online portal. They also upload data into six different information technology (IT) systems maintained by OSPI.

OSPI's School Apportionment and Financial Services (SAFS) department oversees the data the schools provide

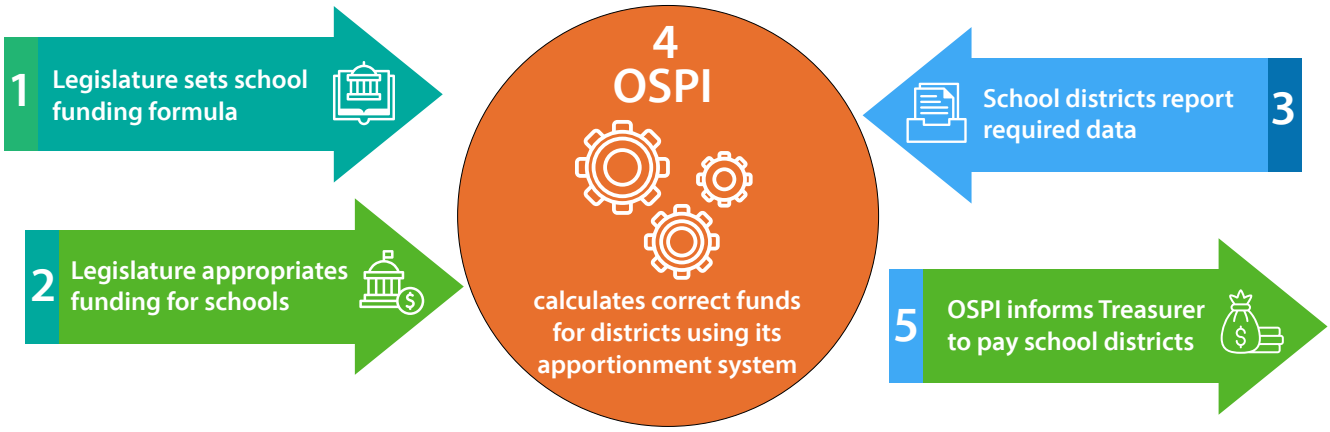
Nine employees in the SAFS department manage the suite of IT software applications used to gather, calculate and distribute education funding. All these applications were developed by a third-party software vendor; this vendor continues to support its proprietary software.

After districts upload their data, SAFS staff review it and make any necessary modifications (such as decimal rounding, formatting and transferring or copying portions of the data to other systems) to prepare it for processing in the apportionment system. The monthly, multilayered calculations the system performs are mostly automated, based on the current parameters established by law and driven by schools' data. However, SAFS staff make some manual adjustments to data needed for the calculations.

Once the apportionment software suite completes its calculation, staff produce reports they send to the Office of the Washington State Treasurer, which distributes money as directed to the counties. Counties are then responsible for distributing money directly to school districts in their boundaries.

Exhibit 2 illustrates the flow of information the SAFS team uses to determine each school's portion of state and federal funding as a series of five steps.

Exhibit 2 – Five essential steps in providing funding for Washington school districts



Source: Auditor created based on state law.

This audit examined the apportionment system to see if it accurately calculates school funding

The correct functioning of the entire suite of software applications comprising the apportionment system is critically important to ensuring school districts receive the correct monthly allotment of state and federal funds based on their actual activities. A failure in any one application that produced an incorrect calculation, and thus the wrong amount of funding, could disrupt schools' ability to manage their operations.

Our Office already conducts regular audits on aspects of school financing, school district operations and OSPI as a state agency. This audit is the first to examine the processes and computer programming involved in OSPI's apportionment suite. This work was conducted by auditors certified as Information System Auditors. The skills gained through certification, combined with their extensive auditing experience, helped them gain a deep and detailed understanding of the apportionment system's complexities and problems.

Given the importance of this system to K-12 public education in Washington, this audit was designed to answer the following question:

- Is the Office of Superintendent of Public Instruction's apportionment system sufficiently designed and managed to ensure accurate and reliable allocation of school funding?

Audit Results

OSPI's complex apportionment system is outdated and unstable, increasingly inefficient and at risk of errors

Results in brief

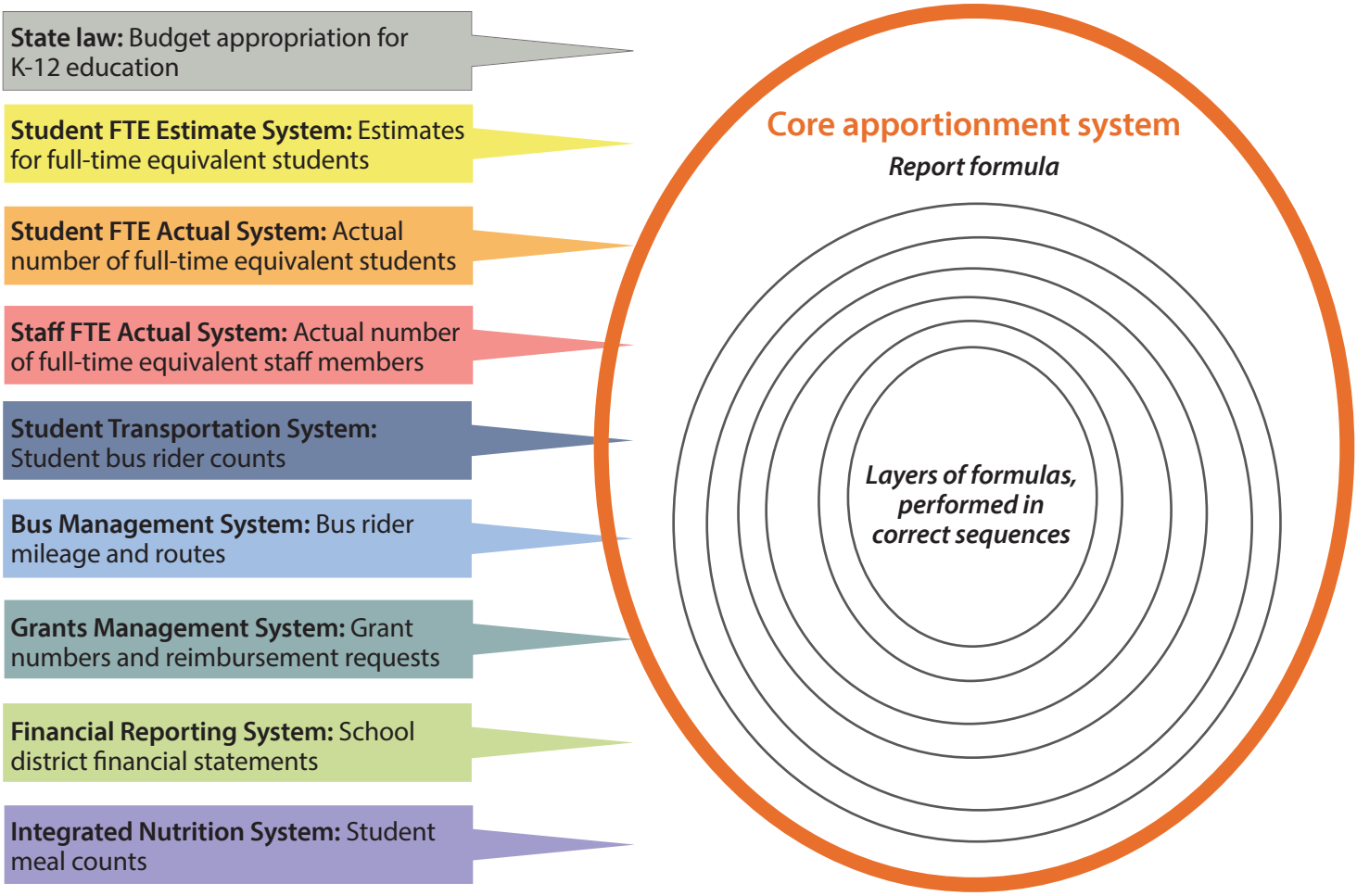
The Office of Superintendent of Public Instruction's 17-year-old apportionment system and its many complex calculations rely on eight feeder systems and a shaky foundation. The system's suite of applications uses an aging, unstable infrastructure foundation that struggles to meet business needs. In addition, legislative amendments require agency staff to frequently modify both formulas and system codes. The difficulties in making frequent modifications in the outdated systems mean staff resort to manual workarounds. OSPI executives are aware of these difficulties and have been working on rebuilding or replacing portions of the systems suite.

The 17-year-old apportionment system's complex calculations rely on eight feeder systems and a shaky foundation

The OSPI is responsible for performing the complicated calculations necessary to correctly allocate legislatively mandated funding to every school district in the state. This allocation is not calculated in a single software application: OSPI staff in the School Apportionment and Financial Services (SAFS) department use a suite of software that was first implemented in 2008, using hardware and software coding current at the time. The core application in the suite is known as the apportionment system.

The suite includes eight other applications used to receive, manage and store data from school districts and feed it into the apportionment system, as illustrated in **Exhibit 3** (on the following page). The district-provided data includes a wide variety of information about school district operations, from the number of full-time students, student meals, bus routes and ridership, to staffing levels and state and federal grant information. However, it excludes individually identifiable personal data such as names and dates of birth.

Exhibit 3 – Eight OSPI systems – plus the state omnibus budget – feed into the core apportionment system and its multiple calculations



Source: Auditor analysis of OSPI apportionment systems, applications and data management.

Compounding the complexity of the software systems are the layers of formulas that perform the calculations made by the apportionment system itself. The audit determined these formulas, based primarily on state law or agency rules and handling different aspects of system data, must be calculated sequentially and in the correct order to provide the right amount of funding to school districts.

The suite of applications relies on an aging, unstable infrastructure foundation that struggles to meet agency business needs

Underlying the multiple software applications involved in the overall apportionment process is system infrastructure composed of the hardware, systems, data backups, networks and other related services needed to deliver IT operations.

We evaluated the infrastructure components for this audit and found OSPI continues to rely on the apportionment system's 2008 foundations. Modern data processing demands, driven by increasingly complicated funding formulas and greater quantities of data, have strained the system's capabilities. Furthermore, because all OSPI's systems and data, including the apportionment system, are supported on the same infrastructure, if one system goes down, other systems can be affected and not fully available for use. For example, in one incident, failed data backups consumed all available storage space in OSPI's IT infrastructure, with the result that multiple systems struggled to function or halted entirely, making OSPI's systems unavailable for at least three days.

The limitations in storage capacity may have had other effects on the agency's capabilities. For example, several suite systems cannot maintain data and reports from the previous month or the last time the data was processed. This makes it impossible for SAFS staff to retrieve from these systems any previously generated calculations to confirm their accuracy. If staff need to review changes made in earlier periods, they must rely on static reports, since they cannot regenerate old calculations to run new reports.

We asked both SAFS and IT department employees whether the agency has evaluated the system infrastructure and its ability to meet core agency business needs and learned the agency has not done so. They attributed this to limited IT staff expertise with the system and their availability to take on the task.

Legislative amendments require OSPI staff to frequently modify both formulas and system codes

The Legislature often amends the statutory requirements that affect how school districts will be funded. Past amendments have changed the data schools must provide to OSPI or how the data will be used in the calculation. Amendments also prompt OSPI to change which data elements it must exclude (or treat as an "exception") from some calculation in the funding formula; the sidebar notes an exception put in place by OSPI. Since these statutory requirements are what establish the funding formula in the apportionment system, SAFS staff must modify the system software coding to align with changes in state law.

Exceptions are typically data elements that OSPI must exclude from some calculation in the funding formula. For example, the "class size" variable for K-3rd grade funding in the formula must exclude librarians, counselors and Educational Support Associates specialists.

The difficulties in making frequent modifications in outdated software systems mean staff resort to manual workarounds

Modifying old software code in what is effectively a legacy system (see note in the sidebar) becomes increasingly difficult to perform to a high and reliable standard. Consequently, staff have devised manual workarounds which are both inefficient and increase the likelihood of errors.

In one example of such a workaround, we found OSPI had not maintained an automated data transfer between several feeder systems – the summary of schools' enrollment numbers and staffing levels – and the apportionment system. This lapse occurred in part because staff prioritized making modifications that were caused by changes in statutory requirements. This breakdown of data communication between systems meant staff had to take additional time to enter the data into three, instead of two, systems, then manually combine and reorganize the data for proper processing in the apportionment system. As well as adding staff time to a step that once was automated, each manual activity increases the risk of introducing errors. An error in a school district's enrollment numbers, for instance, could lead to incorrect calculations that under- or over-fund that district.

About legacy applications

Each software application has a lifespan, and those used beyond the point where they might be retired are frequently called "legacy applications." These products use outdated technology, are often incompatible with more modern IT systems, and are challenging to maintain.

OSPI is aware of these difficulties and has taken some steps to start rebuilding or replacing portions of the systems suite

OSPI managers said they were aware of these difficulties and have already begun assessing areas of the apportionment suite of systems for redevelopment and modernization.

In 2022, OSPI requested and received funding in the state budget to determine what work would be necessary to redesign and modernize the apportionment systems. In 2024, the agency engaged a third-party firm to review the suite's operation and identify possible solutions to modernize its outdated components. The resulting report suggested options for updating the system as it stands or replacing it. The report also noted that the apportionment system relies entirely on the vendor of the software suite for support and changes to any of the eight feeder systems. The vendor has only one trained staff member to support these systems, while OSPI lacks an IT technician with specific knowledge on the core system. Finally, the report described weaknesses and vulnerabilities in the entire suite, including the core apportionment system, and concluded it was at a high risk for "catastrophic failure."

The agency's efforts in 2024 included state budget requests for funding to cover regular maintenance and updates for the feeder systems suite. Starting in the 2025–27 biennium budget, OSPI will receive $16 million over four fiscal years to rebuild or replace portions of the core and feeder systems suite.

Weak controls for both core apportionment and feeder systems pose additional risks that essential data is not complete, accurate, secure and reliable

Results in brief

OSPI leadership is responsible for ensuring the apportionment system is complete, accurate, secure and reliable. These four attributes of sound IT system management rely on five control areas: General IT, system input, data processing, system output, and oversight and monitoring. OSPI lacks many essential controls in all five of these areas. In addition, OSPI lacks documentation of both internal controls and calculation processes and has no internal audit function. Lacking solid controls, OSPI relies on its vendor and a few longtime employees to ensure the apportionment system meets the four essential attributes.

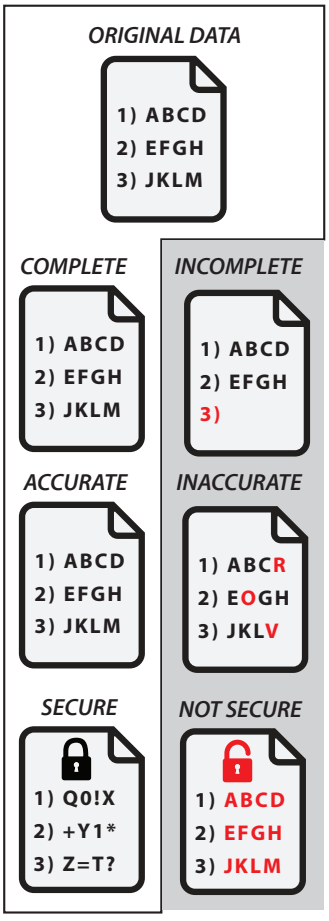
OSPI leadership is responsible for ensuring the apportionment system is complete, accurate, secure and reliable

The State Administrative Accounting Manual (SAAM) and the state Chief Information Officer's prescribed standards require state agencies to manage and protect the systems and data they need to perform their operations, reporting and compliance. These state agencies must use controls that provide reasonable assurance that their data and information technology (IT) systems are complete, accurate and secure. **Exhibit 4** illustrates the principles of data completeness, accuracy and security. "Controls" are automatic or manual processes designed to ensure compliance and provide that assurance. Proper system and data management must also ensure the system is reliable, as are any calculations or processes the system must produce.

The SAAM also specifies that the agency's executive leadership plays an operational role by ensuring controls are properly designed and that agency personnel realize the importance of following those controls.

Given the amount of money distributed by OSPI's apportionment system, we would expect to see robust controls and management emphasis on following them to ensure the funding calculations use complete data, which is accurate, that it remains secure, and the systems used can be considered reliable.

Exhibit 4 – Effective controls help ensure data remains complete, accurate and secure



Source: Auditor created.

These four attributes of sound IT system management rely on five control areas

To determine whether OSPI has applied adequate controls to provide the SAAM's "reasonable assurance," we considered five areas of controls:

1. **General IT** – Policies and procedures devised to establish security, integrity and availability of IT systems and data
2. **System input** – These controls manage data entering the system applications, ensuring it is complete and accurate
3. **Data processing** – These controls ensure the data in various systems undergoes the correct calculations
4. **System output** – These validate the results generated by the application were calculated as intended
5. **Oversight and monitoring** – Oversight structures ensure the agency fulfills its legal responsibilities and follows relevant government guidance

In this chapter, we present examples of issues we identified in these five areas. Many shortcomings overlap and affect multiple control areas, and thus may affect completeness, accuracy, security and reliability of both the individual system and the apportionment system overall. See the sidebar for information about issues that are not described in this report.

Note on reporting protected information

To protect both OSPI's IT applications and the data contained in them, this report does not include detailed descriptions of our results in areas protected by laws on cybersecurity information. This information is exempt from public disclosure in accordance with RCW 42.56.420(4). We shared detailed results with OSPI's IT leadership.

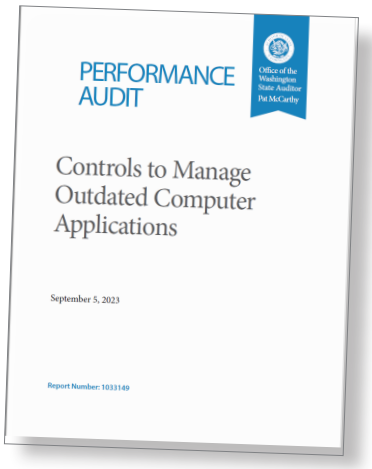
1. General IT controls

State law directs state agencies to adhere to the technology policies and standards issued by the state's Chief Information Officer (CIO). Among the CIO's recommendations are to develop policies and procedures that help to establish the security, integrity and availability of IT systems and data. Activities in this group of controls include: business continuity and disaster recovery plans, controlling who has access to the system, and regularly assessing risks that could jeopardize the operation and security of a system.

OSPI lacks many essential general IT controls

Our evaluations showed that OSPI has not established many controls over the systems suite to ensure all elements remain operational, protected and accurate at all times. While this report does not describe specific details or affected systems at OSPI, some areas of concern we observed are similar to problems already described by previous audit work conducted by our Office at other agencies.

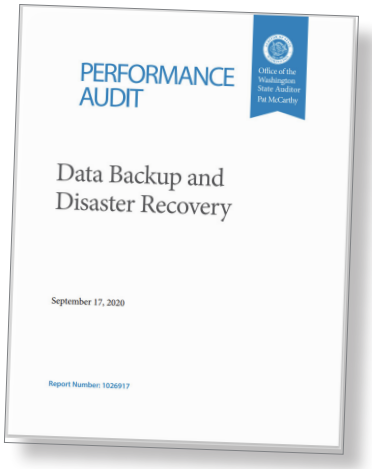
Legacy applications and systems. For example, several issues at OSPI are comparable to findings reported by a 2023 performance audit concerning legacy applications. (See the sidebar for a link to the report on our website.) The age of OSPI's apportionment system, feeder systems and underlying infrastructure suggests that much, if not all, of it falls into such a category. In the earlier audit, we found few audited agencies had defined or identified what qualified as a legacy application, and their IT application inventory records were incomplete and contained inaccurate information, largely due to insufficient staffing, competing priorities and a lack of oversight. Those audited agencies did not periodically identify, calculate or monitor the maintenance cost for each IT application accurately and completely, because they did not prioritize resources for such monitoring due to competing demands for limited resources. Because management remains unaware of the full cost of keeping outdated software and systems involved in keeping the system running, it is more difficult to evaluate the costs-to-benefits of replacement.



Read the report *Controls to Manage Outdated Computer Applications* on our website: portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1033149&isFinding=false&sp=false

In the case of OSPI's apportionment system, we found the agency had not properly documented the risks of doing nothing or developed a plan for replacing the outdated feeder systems despite the fact they have known reliability concerns. In just one example, a system had automatically zeroed out districts' data after they had submitted it.

Backup and disaster recovery procedures. Similarly, a 2020 performance audit looked at two areas, data and system backup and disaster recovery procedures, at several state agencies. (That report is also linked to our website in the sidebar.) A backup is a copy of data or a system preserved in some way separate and secure from the original. A disaster recovery plan sets out, in policies and procedures, how the agency will recover data and restore full system operations to ensure business continuity. The 2020 audit found agencies usually had data backup procedures but did not consistently perform tests to verify they could restore critical data. Furthermore, fewer had a current and tested disaster recovery plan.



Read the report *Data Backup and Disaster Recovery* on our website: portal.sao.wa.gov/ReportSearch/Home/ViewReportFile?arn=1026917&isFinding=false&sp=false

With a system as complex as the apportionment system and its copious feeder data systems, the lack of fully developed plans at OSPI could jeopardize the smooth operation of calculations relied upon by hundreds of school districts. OSPI has already experienced issues in its backup program that, due to inadequate storage availability, put the system out of commission for at least three days. While OSPI's IT team has begun looking into better storage capacity, without proper plans for both backup and recovery, simply improving storage is unlikely to be a sufficient remedy.

Access controls to promote data security. Finally, we noted that OSPI could improve aspects of its access controls. Such controls limit who can work with certain elements of data systems, restricting access to only those who must use it to perform their jobs. Limiting access reduces the risk of unauthorized changes to data, data breaches and cyberattacks.

For the apportionment calculation specifically, school districts report total enrollment, staffing counts and other figures without any personal or detailed data for students or staff. It is nonetheless essential that OSPI protect the data and its integrity to ensure correct calculations in the apportionment system. Even though some employees' daily responsibilities are very specific and narrowly focused on only one of the systems, we found they could gain access to other systems unrelated to their jobs. This poses the risk that some data could be modified by an employee, either accidentally or intentionally, causing the data to become unreliable.

2. Data input controls

Data input controls help ensure only the correct data is allowed to enter the database or system that will need to store or process it. An example of an input control for a form is an automated check that all data fields that should have data do so before allowing the form to be submitted.

School districts are responsible for ensuring the accuracy of the data they submit for use in education funding calculation, including student enrollment, staffing levels, transportation, meals and much more. SAFS team is responsible for ensuring the data districts submit is entered into OSPI's systems accurately. Furthermore, state regulations mandate that all districts be held to the same standard, including meeting the deadlines by which they must submit annual budget estimates and actual figures.

OSPI lacks both automatic and manual controls to ensure districts have submitted all necessary information before running the apportionment calculation. If incomplete or incorrect school data is entered, this could affect the calculation process and thus the amount of funding allocated to that district.

For example, an automatic input control could help ensure correct funding calculations if it prevented SAFS staff from making unallowed changes to district annual budget estimates – including student enrollment and staffing – after the legislatively set cutoff date. This deadline is meant to ensure all districts receive an equal opportunity for funding against their estimated figures during the first few months of the school year, before they capture actual data and SAFS team prorates all funding.

We found SAFS staff revised some estimates in the feeder system for some districts, using more accurate data those districts submitted after the cutoff date. By doing so, they may have created funding inconsistencies for several months, as schools that did not request revisions continued to receive funding based on estimated figures that might no longer be accurate for their current activities. SAFS staff and OSPI managers said they were unaware that the law required them to deny requested changes after the legislatively set cutoff date.

3. Data processing controls

The core apportionment system relies on data transmitted from other systems within the software suite to perform monthly calculations. Leading practices from the General Accounting Office's Federal Information System's Control Audit Manual recommend that organizations apply controls that ensure system interfaces (defined in the sidebar) are complete and accurate. One way to accomplish this is through automated interfaces, which help streamline the process of transferring data, and reduce the risk data can be altered, either intentionally or accidently, while transmitted between systems.

An *interface* is a combination of hardware, software and human processes that allows information to move from one system to another.

In the past, school district data from the feeder systems automatically interfaced with each other and with the core apportionment system.

However, as the amount of information required from school districts by funding laws changed, the automated interfacing failed because the foundational IT system was not built to accommodate ever-increasing volumes of data. Today, SAFS staff at OSPI must manually download school district data from the feeder systems and process it for manual transfer into the core apportionment system. For example, the breakdown of the interface between systems requires staff to enter the summary of schools' enrollment numbers and staffing levels into three systems, instead of two, manually combining and rearranging it for processing in the apportionment system.

OSPI also lacked a data processing control to ensure all legislative mandates and formula changes were properly updated and accounted for in the apportionment system. Additionally, the SAFS staff who were responsible for processing the calculation did not have a consistent understanding of statute hierarchy, and so they sometimes prioritized resources such as Senate bills and other records over state law issued in a new RCW. As some of these resources might not align with the established RCW, this practice introduced increased risk of inaccuracy in the apportionment system's calculations. Without guardrails to check that only current and correct statutes were available to the apportionment system, and in the right hierarchy to apply to the calculations, OSPI faces further risk that errors could be introduced into system calculations.

4. System output controls

Application output controls are designed to ensure processed data, results of calculations and ensuing reports are complete, accurate and valid. Validation involves comparing the output with the expected outcome, ensuring the results align with the original input. A related IT output control maintains a record, or audit trail, that can trace transactions and activity in an IT system from inception to final report. Audit records of this sort help evaluate efficiency of other control

mechanisms and pinpoint errors as close to the point of origin as possible. When core systems lack these records and audit trails, it becomes increasingly difficult to trace errors in transactions and activities.

The SAFS team has implemented some minimum checks and balances to confirm overall totals but lacks adequate tools or processes to validate the accuracy of the apportionment calculation.

During our audit, we watched members of the SAFS team perform the various elements of the apportionment calculation. They were unable to provide historical reports, audit trails, transaction histories as documented evidence showing the system was accurately calculating school funding. Staff responsible for various elements of the system gave us conflicting information and lacked documented procedures to resolve the differences. In one instance, employees described different understandings of how often districts could submit estimated enrollment figures and when the cutoff date for adjustments came into effect. Such conflicting or inconsistent responses, provided by different staff members across a variety of processes, revealed significant gaps in employee understanding and subsequent actions.

5. Monitoring and oversight

Organizations have at their disposal many types of tools to establish and continue sound monitoring and oversight techniques. Often, a good starting point is to document the best understanding of staff's current practice for performing a task, then correcting either the documentation, the practice or both until the record of how to perform the task is accurate and correct. It is equally important to document the internal controls put in place to ensure correct operations. According to the framework recommended by the Committee of Sponsoring Organizations (COSO), organizations should implement, document and reevaluate their internal controls as often as needed. Documentation helps ensure staff or contractors perform tasks consistently, helps managers hold staff accountable for their processes, and maintains the quality of work.

OSPI lacks documentation of both internal controls and calculation processes

We found OSPI lacks comprehensive documentation of internal controls and data information flow, but more problematically, it has not documented exactly how the apportionment calculation is processed. OSPI instead relies on staff memory and incomplete records to perform monthly apportionment calculations. This makes effective oversight of both staff and processes difficult if not impossible.

One example of incomplete documentation appeared in the "Codes and Formulas" document. Ten years ago, in 2015, SAFS staff asked the vendor that provided, and still supports, the core apportionment system and its feeder systems to produce a report documenting that system's formula codes. Staff planned to use this document to record new and changed formulas and in turn tell the vendor what changes it should make to formula codes in the system. (As already noted, OSPI does not have the technical expertise to make formula changes itself.) This document rapidly became outdated, primarily because no one requested an updated report after 2015. We identified multiple issues with this document, including:

- **The original 2015 report was incomplete and did not include all formula types.** SAFS employees responsible for data processing were unaware of this initial fault until the audit team brought it up.
- **Staff recorded updates and changes to legislative formulas and other codes in the document but did not delete old formulas.** Thus, no one could ensure the document retained only actual and active codes. Entries lacked dates that could have helped clarify if a given code was current, for a previous school year, or to be applied in the near future.
- **Multiple employees worked in the document at different times,** causing conflicts and unreconciled information.

As a result, the Codes and Formulas document is more than incomplete: it is inaccurate. Should a new employee attempt to use it, lacking the institutional knowledge of current staff, serious errors could be introduced into the apportionment calculation.

OSPI also lacks an internal audit function

SAAM requires "those charged with governance determine an oversight structure to fulfil responsibilities set forth by applicable laws and regulations, relevant government guidance, and feedback from key stakeholders." An internal audit function can help achieve such oversight.

An internal audit office is an independent, objective auditing and consulting service that adds value to an agency by ensuring operations align with established controls and suggesting improvements to an agency's operations. Internal auditors constantly review an agency's activities with the goal of mitigating risks.

While SAAM requires state agencies to establish an internal audit function, OSPI executive leaders have yet to establish one. They have also not required managers or staff assess the design of internal controls over operations or systems and report their assessment to leadership. Such an assessment would help OSPI executives decide whether an Internal Audit Function would not only help the agency improve issues we identified but enable it to continuously review agency controls and methods to ensure continuous improvement.

Lacking solid controls, OSPI relies on its vendor and a few longtime employees to ensure the apportionment system meets the four essential attributes

As the 2024 third-party review of the apportionment suite of software noted, OSPI relies entirely on the suite vendor for support and to make changes to any of its systems. Furthermore, as we worked with SAFS staff during the audit, we discovered that only a few people within the agency understand the system's complexity – and even then, their understanding was not complete.

OSPI relies on a handful of people in the SAFS department to manage different portions of the apportionment calculation, and they in turn rely almost entirely on their personal experience and memory to perform their work. The documented procedure manual does not always tie activities across team or procedural silos. Each employee could describe to auditors their role, tasks and responsibilities, but could not completely do so for their counterparts even if their work depended upon the others' processes. Nor do these employees have a backup in case of illness or leave time because no other OSPI staff have been cross-trained on their specialist work in the apportionment system. Should one of these key employees be unable to work at a critical time, the monthly apportionment calculation would be at great risk for delay, affecting the cash-flow of all Washington school districts.

Although OSPI may have some controls in place for the accuracy, completeness and security of different elements in the core and feeder systems, the controls are insufficient to provide assurance that the apportionment system overall will continue to be reliable in the future. This is especially the case given the volume and complexity of OSPI's calculations only increase with each passing year.

Audit review of apportionment funding for three school districts identified relatively minor discrepancies

Results in brief

The systemic issues identified during the audit prompted us to test apportionment system calculations. Our funding recalculations for three sampled schools found relatively minor discrepancies, which we identified by comparing statutory requirements to actual apportionment system calculations that were based on the state budget. It is important to remember that our limited review captures only the formula and calculations applied in the 2023-2024 school year. Assurance over accuracy in future calculations depends on OSPI addressing other issues found in this audit.

The systemic issues identified during the audit prompted us to test apportionment system calculations

Given the multiple problems the audit identified, in both system operations and in all five control areas already described, we decided to conduct limited in-depth testing to assess whether the apportionment system was calculating school district funds properly and allocating correct amounts.

Due to the complexity of the calculations involved, we did not attempt to recreate the calculations for the entire funding appropriated by the Legislature but limited our evaluation to the 78% of funding assigned to basic education and the state-allocated amount for special education. We also limited this testing to only three school districts, using data from Kent School District, Federal Way School District and Tacoma School District as test cases. (See Appendix B for information about how we selected the three districts.) Replicating this work on a larger scale, across more than three sample districts, would have required substantial resources and was not feasible within the scope of this audit.

We wanted to understand whether:

- **The system functioned accurately.** To achieve this objective, we developed our own calculation tool, using the limited documentation about the system that SAFS staff were able to provide.

- **The system was designed correctly.** To achieve this objective, we evaluated state law, the state budget and other sources to see if the variables coded into the application were correct. We performed this independent evaluation because SAFS staff did not have documented support for the legal sources applicable to the system's calculation.

While earlier work in the audit had identified the many feeder system inputs and layers of calculations (illustrated in Exhibit 3 on page 11), we had not yet counted the actual number of data points and formulas needed to perform the actual apportionment calculations. In devising our calculation tool, we identified 128 input values and 119 different layers of calculation detail.

We compared our work at every stage to OSPI's calculations to determine if inputs and the sequence of layers were applied in the correct order. Each time we encountered a disparity between the two, we stopped work to confirm our understanding by consulting with SAFS staff, the state's Attorney General's Office, Auditor's Office legal staff, staff at the Office of Financial Management (OFM), and fiscal analysts from the state Legislature.

Our funding recalculations for three sampled schools found relatively minor discrepancies

Using our own calculation tool, we recalculated the school year 2023-2024 enrollment portion of the apportionment amounts for the three selected school districts. While creating our own calculation tools to determine if the apportionment system was both designed adequately and calculating correctly, we were able to connect 119 of 128 input values and all 119 different layers of calculation detail from state law to the OSPI calculation.

All nine input values in which we identified discrepancies between state law and OSPI's calculation were related to small differences between the values specified in state law and in OSPI regulations. To ensure allocations to school districts did not exceed the amount approved in the state budget, SAFS staff made these adjustments to apportionment system coding:

- For one input, staff used a rate of $44.04, which was included in the Senate Bill, instead of the $44.05 required by RCW 28A.150.260 8(b)
- For eight inputs, staff rounded to six decimal places without providing any supporting justification, instead of the three decimals required by WAC 392-121-011

These small differences ensured the apportionment system did not allocate more money than the state budget allowed OSPI to direct to all districts.

Because state law requires a high degree of precision in the calculations, we considered whether OSPI should have notified OFM or fiscal analysts at the Legislature of these discrepancies when staff discovered them. While OSPI staff did not have documentation confirming they did so, when we met with both OFM and OSPI, OFM confirmed that following the state budget was the correct path to follow.

Assurance over accuracy in future calculations depends on OSPI addressing other issues found in this audit

It is important to remember that this limited review captures only the formula and calculations applied in the 2023-2024 school year. While OSPI may correct these discrepancies in its calculations, our work cannot predict the effect of future changes to the funding formula by the Legislature and the apportionment system by OSPI.

Furthermore, the broader issues we identified in OSPI's current systems – in software, infrastructure and human processes – must be resolved before the agency can offer assurance that the apportionment system will calculate school funding apportionment accurately in the future.

State Auditor's Conclusions

The software system at the heart of this audit must make extremely complex calculations, which fund the education of more than 1 million Washington school children. The formulas are subject to change every year and must be highly accurate, as those calculations allocate $30 billion to school districts in a biennium. Yet this system, operated by the Office of Superintendent of Public Instruction, is outdated, a legacy IT system we found to be unstable and at risk of failure. Significant improvements can – and must – be made.

While our Office routinely audits individual school districts, this is the first comprehensive audit of OSPI's apportionment system. First developed in 2008, it has expanded to include eight additional software applications; our study produced the first mapping of its full complexity. For example, when we set out to test the system's accuracy, we identified 119 different calculations it performs to arrive at each school district's allotment. And because state laws about education change every year, OSPI must continually adjust the system to recognize new statutes.

Given the system's complexity, we limited our testing to three school districts. In each case, we found coding discrepancies in which state law and state budget did not align. They were relatively small discrepancies – for example, rounding to six decimal places instead of the required three. To reconcile the differences, OSPI followed the state budget.

Although OSPI staff work diligently to produce accurate allocations, we did not find the robust controls and documentation we would expect for such a large system. Instead, OSPI relies primarily on its IT vendor and a few longtime employees, who in turn rely on institutional memory to operate the system.

Recognizing the challenges inherent in OSPI's responsibilities, the report offers recommendations the agency can immediately implement to mitigate the risks we identified, some as straightforward as fully documenting staff processes. And while we recognize IT upgrades are costly and the needs high across state government, this legacy system must be replaced. For lawmakers, school districts and the public, we believe this report sheds needed light on a critical but largely unseen aspect of the state's education funding system.

Recommendations

For the Office of Superintendent of Public Instruction

To address the risks associated with the outdated and unstable apportionment system, as described on pages 10-14, we recommend OSPI:

1. Create a process to regularly identify and mitigate emerging risks related to legacy or outdated systems, as required by WA-Tech Sec 11-01-S Risk Assessment Standards
2. Conduct a cost-benefit analysis of replacing the current system compared to alternative methods of mitigating its risks and inefficiencies

To address the lack of controls to ensure the reliability of the apportionment system, as described on pages 15-21, we recommend OSPI:

3. Allocate time and resources necessary to implement all WaTech security requirements
4. Implement a change-management process to ensure system changes made by the vendor are consistently evaluated, authorized and documented, and that they align with statutory requirements

To address the lack of controls supporting accountability and functionality of the system, as described on pages 15-21, we recommend OSPI:

5. Restrict access to the formula coding to only the vendor, and implement monitoring controls for any vendor-made changes
6. Develop a process for determining, updating and documenting user access based on current job duties. This should involve a process to reassess user access due to promotions, transfers and changes to job duties. For example, accounts for employees leaving the agency should be inactivated or deleted immediately.

To address the lack of controls to ensure the apportionment system's calculation is accurate, as described on pages 23-25, we recommend OSPI:

7. Document the entire funding system's calculations, controls and processes
8. Review and ensure formulas and coding match legal requirements as they currently stand. To do this, OSPI should:
    - Implement controls to ensure future changes to legal requirements are identified, captured, documented and correctly updated in the systems
    - Develop and maintain documentation of what legal sources affect school funding, including the source hierarchy

9. Monitor, verify and maintain documentation confirming the accuracy of the calculated funding. To provide assurance that school funding has been calculated correctly, the resulting document should be understandable and made easily available to school districts.
10. Conduct an internal controls assessment of current controls in place for ensuring accuracy and completion of the apportionment calculation. Consider implementing an internal audit function for the agency for the IT systems used such as the apportionment system.

To address the inadequate staffing issues described on pages 20-22, we recommend OSPI:

11. Designate and train backups for each employee's responsibilities
12. Develop procedural manuals to help ensure consistency during potential absences or staff turnover

Agency Response

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Washington Office of Superintendent of
PUBLIC INSTRUCTION
Chris Reykdal, Superintendent

May 7, 2026

Washington State Auditor's Office
302 Sid Snyder Avenue SW
Olympia, WA 98504

Re: OSPI Response to Apportionment System Performance Audit

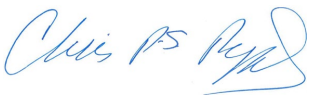
To Whom it May Concern:

Please accept our attached responses to the recommendations identified by the State Auditor's Office (SAO) as it relates to the apportionment system and process. OSPI currently relies on an apportionment system and process that is based on 17-year-old technology and has recently begun the contracting process to solidify a replacement system by the 2028–29 school year.

The recommendations resulting from your work reinforce our concerns and the urgency around our request for a new system. We have also implemented, or are planning to implement, a variety of process changes, checks, and balances to ensure the continued accuracy of payments from this system. My staff has provided additional details and evidence of those actions in the attached agency response.

OSPI understands the importance of timely and accurate payments to our K–12 education system. Your work verified that our staff was able to successfully distribute funding to school districts accurately and consistently with legislative direction, despite an unreliable technology solution. Your work also emphasized areas of support and improvement needed, which we will address as we continue to work for a more reliable, nimble, and capable apportionment system.

Sincerely,



Chris Reykdal
Superintendent of
Public Instruction

Enclosure: OSPI Responses to SAO Apportionment System Audit

State Auditor's Response

As part of the audit process, our Office provides a final draft of our reports to audited agencies and offers management an opportunity to respond. For all performance audit reports, generally accepted government auditing standards, which are published by the U.S. Government Accountability Office, require us to consider areas of disagreement or where responsible officials' views are in conflict or inconsistent with our findings, conclusions or recommendations.

In addition to its formal response letter, included on page 29 of this report, the Office of Superintendent of Public Instruction (OSPI) provided specific responses for each individual recommendation.

Although OSPI said that it has already implemented or agrees to implement most of our 12 recommendations, the agency responded to recommendations 4, 5, 6, 7, 9, 10 and 11 by indicating it intends to implement new controls as part of the apportionment system replacement process. OSPI said it expects work to begin on system development in July 2026, with implementation for the 2028-29 school year – leaving the system exposed to various risks for potentially three or more years.

Incorporating appropriate controls as part of the new system will be essential, but it is just as important to make other urgently needed improvements now. For example, OSPI said it will ensure that employees have clear desk manuals to allow for continuity of operations and maintenance for the apportionment system. However, the agency does not intend to consider cross-training and designating backups for key staff roles until the new system is implemented.

The longer OSPI continues without taking action on these seven recommendations, the longer the risks to correct allocation of school district funding will persist.

Appendix A: Initiative 900 and Auditing Standards

Initiative 900 requirements

Initiative 900, approved by Washington voters in 2005 and enacted into state law in 2006, authorized the State Auditor's Office to conduct independent, comprehensive performance audits of state and local governments.

Specifically, the law directs the Auditor's Office to "review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts." Performance audits are to be conducted according to U.S. Government Accountability Office government auditing standards.

In addition, the law identifies 10 elements that are to be considered within the scope of each performance audit. The State Auditor's Office evaluates the relevance of all 10 elements to each audit. The table below indicates which elements are addressed in the audit. Specific issues are discussed in the Results and Recommendations sections of this report.

I-900 element	Addressed in the audit
1. Identify cost savings	**No.**
2. Identify services that can be reduced or eliminated	**No.**
3. Identify programs or services that can be transferred to the private sector	**No.**
4. Analyze gaps or overlaps in programs or services and provide recommendations to correct them	**No.**
5. Assess feasibility of pooling information technology systems within the department	**No.**
6. Analyze departmental roles and functions, and provide recommendations to change or eliminate them	**No.**

I-900 element	Addressed in the audit
7. Provide recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions	**No.**
8. Analyze departmental performance data, performance measures and self-assessment systems	**No.**
9. Identify relevant best practices	**Yes.** The audit identified best practices for system controls related to ensuring complete, accurate, secure and available data, as well as controls related to business continuity and functionality.
10. Analyze the social equity impact of programs or services	**No.**

Compliance with generally accepted government auditing standards

We conducted this performance audit under the authority of state law (RCW 43.09.470), approved as Initiative 900 by Washington voters in 2005, and in accordance with generally accepted government auditing standards as published in *Government Auditing Standards* (July 2018 revision) issued by the U.S. Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The mission of the Office of the Washington State Auditor

Our mission is to promote accountability and transparency in government. We work with state agencies, local governments and the public to achieve our vision of increasing public trust in government by helping governments work better and deliver higher value. The results of our work are widely distributed through a variety of reports, which are available on our website and through our free, electronic subscription service. We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program. For more information about the State Auditor's Office, visit www.sao.wa.gov.

Appendix B: Objectives, Scope and Methodology

Objectives

The purpose of this performance audit was to examine the calculation that allocates the total state funding for educational services to the various schools and support service agencies. The audit addressed the following objective:

- Is the Office of Superintendent of Public Instruction's apportionment system sufficiently designed and managed to ensure accurate and reliable allocation of school funding?

For reporting purposes, we organized the audit results into three key findings. The messages relate to the original objective as follows:

- OSPI's complex apportionment system is outdated and unstable, increasingly inefficient and at risk of errors (pages 10-14)
- Weak controls for both core apportionment and feeder systems pose additional risks that essential data is not complete, accurate, secure and reliable (pages 15-22)
- Audit review of apportionment funding for three school districts identified relatively minor errors (pages 23-25)

Scope

This audit was focused on the apportionment system and the basic enrollment portion of the basic education funding. Audit work evaluated OSPI's internal controls surrounding the calculation and application, the IT controls set to ensure the application runs as intended, and the accuracy of the calculation of three individual school districts. Auditors reviewed records and processes in place at OSPI from September 2023 through August 2024.

State laws and administrative rules reviewed for this audit are listed in **Figure 1** (on the following page).

Figure 1 – State laws and regulations reviewed in this audit

State laws	Summary description
RCW 28a.150.260	Provides the basic formula and factors to determine general education apportionment funding. The RCW includes information for categorical funding programs as well.
RCW 28a.150.412	Source for the regionalization factors for districts.
RCW 28a.150.415	Determines funding for professional learning.
RCW 28a.232.020	Determines Alternative Learning Experience (ALE) calculation.
RCW 28a.175.110	Determines Dropout Reengagement calculation.
RCW 28a.225.250	Determines cooperative program financing rules. The formula after guaranteed apportionment to reallocate funds for students in a cooperative.
RCW 28a.600.402	Determines Running Start calculation.
Omnibus Act (ESSB 5950.sl)	Legislative document establishing additional state constants and formulas for the apportionment formula. Sections 504-506 are specific to apportionment funding.
OSPI rules	**Summary description**
WAC 392-169-095	Determination of the vocational and nonvocational rates.
WAC 392-700-165	Determines funding rate is the same as vocational and nonvocational rates.
WAC 392-169-090	Determines how to calculate Running Start funding.
WAC 392-169-030	For Running Start, the 11 reporting months are divided by 9 to obtain the Average Annual Full Time Equivalent (AAFTE).
WAC 392 - 121-133	AAFTE is total FTE claimed for 10 months, divided by 10 and defines AAFTE.
WAC 392-700-015	For Open Doors, AAFTE is the total FTE divided by 10.
RCW 28A.150.220	Determines number of school days
WAC 392-121-011	Requires staffing rates to be rounded to 3 decimal places and student FTE to be rounded to 2 decimal places.
WAC 392-121-138	Relates to Running Start vocational information.
WAC 392-121-122	Defines an FTE student.
WAC 392.121.215	Defines required staffing to be reported as of October 1st.
WAC 392.127.070	Outlines 46/1000 Calculation.
WAC 392.127.075	Provisions of the compliance calculation related to 46/1000.
Operating Budget LEAP documents	An OSPI-prepared document showing regionalization factors and therefore is not a legislative source.

Methodology

We obtained the evidence used to support the findings, conclusions and recommendations in this audit report during our fieldwork period, April 2024 through October 2025. We have summarized the work we performed to address the audit objective in the following sections.

Chapter 1: OSPI's complex apportionment system is outdated and unstable, increasingly inefficient and at risk of errors

To gain an understanding of the apportionment system and its feeder systems, we interviewed at length staff from the agency's School Apportionment and Financial Services (SAFS) department. We also watched them perform steps involved in apportionment to understand the manual and automated controls of the feeder systems suite, particularly the core apportionment system.

- We initially identified nine systems; two of them were grant management systems. During the audit, OSPI was in the process of transitioning to the newer grant management system and ending use of the older; for this reason, we considered the total systems in the report to be eight.

We met with the system vendor to understand how the system formula and codes function and were updated as this was not information available through OSPI. We also requested and reviewed any documentation available for these processes from both OSPI and the vendor.

To learn about the stability of the system's infrastructure, we asked both OSPI staff and the vendor about the age and development for both IT infrastructure and software used in the apportionment system.

Finally, we interviewed SAFS and IT staff about their awareness of the system's issues and their efforts to address them. We also researched recent legislation and budget requests to gain an understanding of OSPI's efforts to rebuild or replace the system.

Chapter 2: Weak controls for both core apportionment and feeder systems pose additional risks that essential data is not complete, accurate, secure and reliable

Because SAFS staff could not provide a clear description, documentation or presentation of the overall apportionment process, we created a flowchart describing it to ensure our audit focused on those activities affecting the allocation of the basic education apportionment funding. We showed this flowchart to staff and managers in the SAFS department and they confirmed it was correct.

To evaluate apportionment system controls, we conducted interviews with several SAFS staff members and observed them performing their work processes. We performed this work from April 2024 through October 2025, with the goal of understanding how data from individual school districts is received, processed and entered in the feeder system suite. We also requested and reviewed documentation showing OSPI's controls over various parts of the system.

We used as our framework Washington's State Accounting and Auditing Manual (SAAM), the state Chief Information Officer's prescribed standards, and basic frameworks issued by the Committee of Sponsoring Organizations (COSO), to assess the design of processing and output controls. We compared OSPI's internal controls to these frameworks.

Having gained an understanding of the overall functions, processes and features of the apportionment system, we then performed similar steps with IT staff, the system vendor and SAFS department managers to understand current business continuity procedures. We then compared them to the IT security standards issued by the CIO and WaTech.

Chapter 3: Audit review of apportionment funding for three school districts identified relatively minor discrepancies

After watching SAFS staff perform the entire apportionment process and identifying various problems in multiple steps, we decided to conduct in-depth testing with a limited number of school districts.

We first conducted a statistical analysis to select school districts for testing. In our analysis, we estimated the amount of funding each district should have received based on four months of total and average enrollment headcount. We then compared the amount of funding districts actually received to our estimates and identified districts that received significantly more or less funding than expected. From that group of districts, we chose three for testing. We worked directly with these districts to obtain the original, final data they had provided to OSPI. Finally, we traced their data through the calculation, back to the amounts the districts ultimately received. Although we considered performing this exercise for additional districts, work to verify data for just three districts had already consumed thousands of hours of audit time, and we decided expanding the analysis to more districts was not feasible.

We worked with our Office's internal legal team and a representative of the Attorney General's Office to collect information that would help us understand and interpret how different legal statutes feed into the apportionment calculation. Doing so allowed us to determine whether OSPI designed the formula as the Legislature expected. We worked with fiscal analysts from the Legislature to confirm our interpretation of the use of state budget accurate for formulas in our calculation, to ensure we used the correct source.

We then developed our own calculation tool based on state statutes, because the SAFS team did not have tools to validate calculations outside the system itself. Due to the complexity of the calculations involved, we did not attempt to recreate the calculations for the entire funding appropriated by the Legislature but limited our evaluation to the 78% of funding assigned to basic education and the state-allocated amount for special education.

Using our own calculation tools, we recalculated the school year 2023-2024 enrollment portion of the apportionment amounts for the three selected school districts: Kent, Federal Way and Tacoma. In comparing statutory requirements to apportionment system calculations, we identified nine discrepancies in the formula which affected the amounts each received in funding.

We estimated and assessed the statewide effect of these discrepancies between state law and state budget by recalculating total basic and special education apportionment funding amounts disbursed using the supported numbers and total FTE shown on the state summary in place of the errors we identified.

Work on internal controls

Internal controls were a significant element within the context of the audit objectives. We evaluated whether OSPI had designed processes over the accuracy and reliability of the apportionment calculation including the control activities. We interviewed SAFS staff, system vendors and IT staff and reviewed documents such as procedures, reports and system screens to determine the implementation of the controls. We did not assess the operational effectiveness for these controls. Further, we evaluated OSPI's IT controls surrounding the apportionment system.

OSPI could not provide assurance controls were working as designed, so we performed a significant portion of the calculations, using our own framework, for three school districts for the entire 2023-2024 fiscal year, to identify areas where OSPI's formula deviated from state law by following the state budget instead.

"Our **mission** is to promote accountability and transparency to achieve our **vision** of increased trust in government.

– Pat McCarthy, State Auditor

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