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The Rundown podcast transcript for Performance Audit report titled ***Evaluating Disbursements from the Low-Income Tax Credit Scholarship Program*** – Released April 2022

Brad Hoff, Host and Recruiting and Training Manager: [00:00]

Welcome to The Rundown, your source for the latest news and updates from the Kansas Legislative Division of Post Audit, featuring LPA staff talking about recently released audit reports and discussing their main findings, key takeaways, and why it matters. I'm Brad Hoff. In April, 2022, Legislative Post Audit released a limited scope performance audit that evaluated disbursements for the Tax Credit for Low Income Student Scholarship program. And whether these disbursements followed state law. I'm with Mohri Exline, auditor at Legislative Post Audit, who supervised the audit. Mohri, welcome to The Rundown.

Mohri Exline, Supervisor and Auditor: [00:38]

Thanks, Brad.

Brad Hoff, Host and Recruiting and Training Manager: [00:40]

So, let's start here. What is the Tax Credit for Low Income Student Scholarship program, and how does it work?

Mohri Exline, Supervisor and Auditor: [00:49]

So the Tax Credit for Low Income Student Scholarship program was created in 2014, and it went into effect in January of 2015. The Tax Credit for Low Income Student Scholarship program is supposed to help eligible students to attend private schools of their choice. So those eligible students right now as of 2021, the eligible students can be from any Kansas public school, as long as they qualify for free and reduced lunch. Prior to that, the restrictions were a little bit more strict there. So, before 2021, those students had to come from one of the hundred lowest performing public schools. And so that created some issues. And we'll talk about that a little bit later, but as of now, those students just have to be from free and reduced lunch, and then they can go to qualifying private schools. So those qualifying private schools are, they have to be accredited. So, Scholarship Granting Organizations use the contributions that they receive from taxpayers to give these scholarships to students. So those contributions they can get a 90% tax credit.

Brad Hoff, Host and Recruiting and Training Manager: [02:06]

So these donations at the Scholarship Granting Organizations they receive from

individuals and businesses, how much have they received and how much have they disbursed since the program started?

Mohri Exline, Supervisor and Auditor: [02:20]

Okay. So, over the course of this program, so like I said, it started it in January of 2015 through the, our data actually ends in 2021 at the end of the school year of 2021. So, we are only counting everything that happened before May 31st, 2021. So that said from 2015, through May 31st, 2021, they distributed over \$9 million in scholarships of the \$15.5 million that they received in contributions. So, there are lots of Scholarship Granting Organizations currently in the program, but they have participated to varying degrees over the years. So, in the first year of that program, there were five Scholarship Granting Organizations that participated, and they had contributions of about \$56,000. However, none of those funds were dispersed in that year. And then, in the latest completed school year, so ending in May 31st, 2021, there were \$3.9 million dollars in contributions and the SGOs distributed about \$3 million dollars of that in scholarships.

Brad Hoff, Host and Recruiting and Training Manager: [03:38]

Now this limited scope audit's objective was to determine whether the Scholarship Granting Organizations are disbursing, or have disbursed, the contributions to the Tax Credit for Low Income Student Scholarship program in accordance with state law. Talk a little bit about what the state law is related to this program, the work you did, and what you concluded, whether those departments were in accordance with state law.

Mohri Exline, Supervisor and Auditor: [04:06]

Right. So, there's a provision in the law that, Scholarship Granting Organizations need to distribute 90% of the contributions that they receive within three years. It actually specifically says 36 months, but because of data limitations, we had to kind of boil this down to annual. So, we looked at it in terms of three years. So that said the work that we did was we based this on a first in first out method. And so, we went through and looked at each year's scholarships that were awarded versus contributions to see whether or not that 90% requirement had been met. So, we found that two organizations, two Scholarship Granting Organizations, didn't meet that requirement. And, in that, one of the Scholarship Granting Organizations didn't meet it twice. So, they had a contribution that happened really early in the program that wasn't distributed within three years.

Mohri Exline, Supervisor and Auditor: [05:10]

And then, they had another contribution that came in later on that again, wasn't distributed within three years. So that happened in The Independent School, down in Wichita. And then there is another Scholarship Granting Organization in Salina that had a similar situation. However, we did go ahead and talk to each of these agencies and we talked to several Scholarship Granting Organizations over the

course of our work with this. And we kind of asked them what were the struggles? What were the barriers to maybe handing out that 90%? And both of these organizations that had missed that requirement mentioned that the eligibility requirements and qualifications that students had to meet and schools had to meet in order to hand out those scholarships were a little stringent. And so, for instance, the agency or the Scholarship Granting Organization in Salina mentioned that they did not have any schools in their area that met that hundred lowest perform schools requirement.

Mohri Exline, Supervisor and Auditor: [06:18]

And so they didn't have any eligible students during the time that they needed to be handing out those scholarships. So, they weren't able to hand out the scholarships within three years, however, when changes were made in 2021 that made it so that students from any public school are now eligible, these students could now get scholarships and they were able to hand out those scholarships. So that said, there was a similar situation that happened in The Independent School down in Wichita. They said that that first contribution that they got, they weren't able to that hand out because no students that were eligible applied to the school during that time. And so, they just really had issues with these qualifications. Lots of different SGOs, Scholarship Granting Organizations, mentioned the same thing and had similar struggles in finding students that were qualified that were able to take those scholarships. But many of them mentioned that the changes that happened in 2021 really helped with that and helped to alleviate the concerns for the future. And, they feel like they're in a good place at this point to be able to meet that 90% requirement in the future.

Brad Hoff, Host and Recruiting and Training Manager: [07:40]

Finally, what is the main takeaway of this audit report?

Mohri Exline, Supervisor and Auditor: [07:45]

So the biggest takeaway is actually our final finding. So, we looked at monitoring of compliance with within KSDE and also SGOs, just kind of in general, what is in place right now in processes and procedures, as well as in statute, to make sure that that 90% requirement is being met and is being monitored by those agencies. So that said, within the statute, it gives KSDE the ability and gives them kind of the requirement to monitor this 90% compliance in order to certify that each of the Scholarship Granting Organizations are within substantial compliance each year. So, the Kansas Department of Education is supposed to look at those annual reports that Scholarship Granting Organizations are required to send them. However, those annual reports only report on annual data-annual totals. And so, they, the Kansas Department of Education actually doesn't get the information to, to measure based on the month.

Mohri Exline, Supervisor and Auditor: [09:03]

So that said, there really is no way right now for the Kansas Department of Education to go in and measure by that 36-month requirement to make sure that Scholarship Granting Organizations are distributing their contributions on time. They can do that annually with what is currently submitted to them. However, we recommended that the Department of Education go ahead and add a requirement to their annual reports for Scholarship Granting Organizations that Scholarship Granting Organizations should report this information based on the month and give month totals so that the Kansas Department of Education will actually be able to accurately measure to the month and verify substantial compliance in that way.

Brad Hoff, Host and Recruiting and Training Manager: [09:59]

Mohri Exline is an auditor at Legislative Post Audit. She supervised an audit that evaluated disbursements for the Tax Credit for Low Income Student Scholarship program. And whether these disbursements followed state law, Mohri thanks for visiting The Rundown and discussing this limited scope audit's findings with me.

Mohri Exline, Supervisor and Auditor: [10:16]

Thanks, Brad.

Brad Hoff, Host and Recruiting and Training Manager: [10:17]

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