# UNITED STATES DEPARTMENT OF EDUCATION
**OFFICE OF INSPECTOR GENERAL**
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November 8, 2004

**MEMORANDUM**

TO: Raymond J. Simon
Assistant Secretary
Office of Elementary and Secondary Education

FROM: J. Wayne Bynum *J. Wayne Bynum*
Regional Inspector General for Audit
Office of Inspector General

SUBJECT: **FINAL AUDIT REPORT**
*Georgia Department of Education's Administration of Title I, Part A of the Elementary and Secondary Education Act of 1965*
Control No. ED-OIG/A04-E0002

You have been designated as the action official for the resolution of the findings and recommendations in the attached final report. We also provided a copy to the auditee and to your audit liaison officer.

The Office of Inspector General is required to review and approve your proposed Program Determination Letter (PDL) and the Audit Clearance Document (ACD) before the PDL is forwarded to the auditee. Our review of these documents will be handled through the Department's Audit Accountability and Resolution Tracking System (AARTS).

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General is required to report to Congress twice a year on the audits that remain unresolved after six months from the date of issuance.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions, please contact me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

Enclosure

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November 8, 2004

Kathy Cox
State Superintendent of Schools
Georgia Department of Education
2066 Twin Towers East
Atlanta, Georgia 30334-5001

Dear Ms. Cox:

This **Final Audit Report**, Control Number A04-E0002, presents the results of our audit of the Georgia Department of Education's (GDOE) allocation of Elementary and Secondary Education Act of 1965, as amended (ESEA),[1] Title I, Part A (Title I) funds to local educational agencies (LEAs) and selected LEAs' allocations to schools. Audit coverage included the period July 1, 2002, through June 30, 2004 (award years 2002-2003 and 2003-2004). Our audit focused on GDOE's allocation of Title I funds to LEAs for award years 2002-2003 and 2003-2004, and selected LEAs' allocations to schools for award year 2002-2003.

Our objective was to determine whether GDOE allocated Title I funds in accordance with Title I of the ESEA, governing regulations, and U.S. Department of Education (ED) guidance. To meet this objective, we (1) determined whether GDOE properly followed Title I regulations and guidance for setting aside Title I funds received from ED for State administration and school improvement and making final grant allocations to LEAs, (2) determined whether selected LEAs allocated Title I funds to the schools with the highest percentages of poor children (in rank order), (3) determined whether only eligible schools received Title I funds, (4) determined whether the proper poverty measures were used and that lower poverty schools did not receive higher per-pupil allocations than higher poverty schools, and (5) verified that the data used by the LEAs to identify and count eligible poverty children was consistent and inclusive.

## AUDIT RESULTS

GDOE did not maintain adequate documentation regarding its calculation of set-aside funds and funds allocated to LEAs. We used alternative audit procedures to determine the accuracy of GDOE's calculations for these funds for the 2002-2003 school year. We determined that GDOE

[1] The Elementary and Secondary Education Act of 1965 was amended by the No Child Left Behind Act of 2001, enacted January 8, 2002.

calculated Title I set-aside funding and allocated LEA funding correctly; however, GDOE did not maintain supporting documentation of how it (1) determined the amount of set-aside funds for school improvement and State administration and (2) allocated funds to the LEAs for award year 2002-2003. We also found that GDOE's Title I allocation guidelines need to be updated to comply with Title I regulations, and that GDOE's procedures were not adequate for reviewing Title I related findings identified during monitoring visits and audits of LEAs.

We also found that the 10 LEAs selected for review allocated Title I funds to schools with the highest percentages of poor children (in rank order), allocated Title I funds to only eligible schools, used proper poverty measures to ensure that lower poverty schools did not receive higher per-pupil allocations than higher poverty schools, and used consistent and inclusive data to identify and count eligible poverty children. However, we found the source documentation for one LEA did not support the poverty count data that it used to allocate Title I funds to schools.

In its response to our draft audit report, GDOE concurred with the findings and recommendations. We have included GDOE's response in its entirety as an attachment.

**FINDING No. 1 – GDOE Management Controls Over Supporting Documentation for Set-Aside Funds and Allocation of Funds to LEAs Need Strengthening**

GDOE did not maintain adequate supporting documentation of how it (1) set aside Title I funds used for school improvement and State administration and (2) made final Title I grant allocations to LEAs for the 2002-2003 school year. A former employee had deleted the Title I allocation calculation spreadsheets. As a result, GDOE did not have documentation to support its Title I allocations for school year 2002-2003. In addition, GDOE's Title I allocation guidelines were missing some required procedures contained in ED's Title I allocation guidance that prescribe how to properly set aside and allocate Title I funds. The GDOE guidelines had not been updated to reflect the changes for the 2003-2004 school year. As a result, the GDOE management controls were inadequate to ensure that its staff followed adequate guidance to properly calculate Title I set-aside funds and allocations to LEAs.

The regulations at 34 C.F.R. §76.730, the State-administered program regulations, state:

> A State and a subgrantee shall keep records that fully show:
> (a) The amount of funds under the grant or subgrant;
> (b) How the State or subgrantee uses the funds;
> (c) The total cost of the project;
> (d) The share of that cost provided from other sources; and
> (e) Other records to facilitate an effective audit.

The State-administered program regulation at 34 C.F.R. §76.731 states, "A State and a subgrantee shall keep records to show its compliance with program requirements."

Also, 20 U.S.C. §1232f states "Each recipient of Federal funds under any applicable program through any grant, subgrant, cooperative agreement, loan, or other arrangement shall keep records which fully disclose the amount and disposition by the recipient of those funds, the total cost of the activity for which the funds are used, the share of that cost provided from other

sources, and such other records as will facilitate an effective financial or programmatic audit. The recipient shall maintain such records for three years after the completion of the activity for which the funds are used."

ED issued final regulations on December 2, 2002, that govern Title I allocations to LEAs; procedures for within-district allocations; and reservation of funds at the State level for school improvement, State administration, and State academic achievement awards (34 C.F.R. §§200.70-200.78, 200.100). ED also issued guidance on May 23, 2003, entitled "State Educational Agency Procedures For Adjusting Basic, Concentration, Targeted, and Education Finance Incentive Grant Allocations Determined by the U.S. Department of Education." This guidance covered the 2003-2004 school year. Previously, in June 1999, ED issued guidance entitled "School Year 1999-2000 State Educational Agency Procedures for Adjusting Basic and Concentration Grant Allocations Determined by the U.S. Department of Education" which covered the 2002-2003 school year (expired October 31, 2002) to the extent the guidance was consistent with the requirements in Subpart 2 of Title I, as amended by the No Child Left Behind Act of 2001.

**Maintenance of Documentation**

Our analysis showed that GDOE correctly calculated Title I set-aside funds and allocated funds to LEAs correctly for both award years that we reviewed. However, GDOE did not maintain supporting documentation for award year 2002-2003. During award year 2002-2003, GDOE went through a change in administration as a result of State elections. GDOE officials stated that a former employee prepared the allocation spreadsheets with detailed calculations that documented how GDOE set aside Title I funds to be used for school improvement and State administration and reallocated Title I funds to LEAs for the 2002-2003 school year. The officials said the former employee deleted the files and no copy could be located.

GDOE did not maintain a copy of the allocation spreadsheet files and officials were not familiar with how the Title I set-aside funds and final grant allocations to LEAs were calculated for the 2002-2003 award year. Without adequate documentation to review, we used alternative audit procedures to determine the accuracy of GDOE's calculations for set-aside funds and to allocate funds to the LEAs for the 2002-2003 school year. We determined that the set-aside funds and LEA allocations for the 2002-2003 award year were reasonable and consistent as a percentage (varied by three percent or less) of the total set-aside funds or allocations made to LEAs for the 2003-2004 award year.

For award year 2003-2004, GDOE hired a consultant who prepared the allocation and developed the spreadsheets showing how funds were allocated for set-asides and LEA allocations. GDOE officials stated that the responsibility for preparing the yearly allocation had been assigned to a budget analyst in GDOE's finance office and that the budget analyst and Title I Director will maintain documentation of how the Title I funds are allocated.

**Updated Guidelines**

GDOE's written Title I allocation guidelines had not been updated to comply with the most recent allocation requirements contained in ED's allocation guidelines and regulations, and the No Child Left Behind Act of 2001. For example, in fiscal years 2002 and 2003, Section 1003 of

the ESEA required each State educational agency to reserve 2 percent (increasing to 4 percent in fiscal year 2004 and beyond) of the amount received from ED under Title I, Part A for school improvement activities. However, GDOE's written Title I allocation procedures stated that a maximum of 0.5 percent of the funds received from ED would be used to set aside funds for school improvement activities. The GDOE guidelines had not been updated to reflect the changes for the 2002-2003 and 2003-2004 school years.

Without up-to-date Title I allocation procedures and guidelines that comply with ED's requirements, GDOE did not have adequate management controls in place to ensure that its staff followed adequate guidance to properly calculate Title I set-aside funds and allocations to LEAs. GDOE officials said that they plan to assign a specific individual the responsibility, in conjunction with the Title I Director, for updating the Title I guidelines.

In the future, GDOE needs to have readily available documentation and staff to demonstrate that the Title I program set-aside funds and allocations made to LEAs were prepared accurately. Adequate documentation of the prior years allocations and written policies and procedures that are up-to-date with ED's regulations would help ensure effective continuity of operations and management controls over the Title I program in accordance with Title I regulations.

## RECOMMENDATIONS

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require GDOE to:

1.1 Implement controls to maintain and safeguard the documentation for setting aside Title I funds for State administration and school improvement, and making final Title I grant allocations to LEAs.

1.2 Develop up-to-date written procedures and guidelines that comply with Title I allocation requirements.

## GDOE RESPONSE AND OIG COMMENTS

GDOE concurred with the finding and stated that corrective action will be implemented by December 31, 2004. We reviewed GDOE's planned corrective action to address the recommendations. We agree that the corrective actions, if fully implemented, should help GDOE improve controls over Title I funds.

## FINDING No. 2 – GDOE Procedures for Monitoring Title I Related Findings Identified During LEA Monitoring Visits and in Audit Reports Need Strengthening

GDOE did not have adequate procedures in place to obtain copies of LEA monitoring reports that identified Title I related findings. As a result, GDOE was unaware of monitoring findings related to inaccurate counts of eligible students. In addition, the same Title I finding was repeatedly identified in three OMB Circular A-133 audit reports of an LEA. Although GDOE

monitored approximately a fourth of the LEAs during the 2002-2003 school year, tracking Title I findings identified from monitoring site visits and audit reports would help GDOE target LEAs that are having problems implementing their Title I program in accordance with the Title I regulations.

The regulations at 34 C.F.R. §80.40 state that "[g]rantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

Office of Management and Budget (OMB) Circular A-133, section 400(d), Pass-through entity responsibilities, states that a pass-through entity (such as GDOE) shall monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Monitoring Site Visits

GDOE's School Nutrition Office (School Nutrition) performed reviews at various LEAs to review free and reduced-price meal applications. School Nutrition reviewed Atlanta Public Schools' (APS) school nutrition office for the past five years and found that APS made inaccurate counts of eligible students for the free and reduced-price meal counts. APS used the number of children eligible for free and reduced-priced meals to identify eligible school attendance areas and to determine the ranking of each school. There were many findings regarding APS' eligible student counts in the reports issued by School Nutrition. GDOE Title I officials indicated that they did not receive copies of the monitoring reports prepared by School Nutrition and were not aware of these findings from previous years.

Of 180 LEAs that received Title I funds during the 2002-2003 school year, GDOE's Title I office performed monitoring visits at approximately 45 LEAs during the school year. GDOE's Title I office performed a monitoring visit at APS on May 11, 2004. GDOE had not conducted a monitoring visit to APS in the two years prior to that visit. Since LEAs use free and reduced-price meal eligibility as a basis for allocating Title I funds, GDOE should review findings identified by School Nutrition and Title I staff to identify LEAs, like APS, who may not be using complete and accurate data for their allocations.

A-133 Audit Reports

For the past three school years, the A-133 audit reports for the Dougherty County Board of Education (DCBE) identified problems regarding the Title I program. For school year 2000-2001, the A-133 audit report stated that DCBE did not provide accurate documentation to support the determination of eligible and participating attendance areas and school allocations for the 2001 Title I program. The audit report stated that this condition was the result of DCBE's failure to maintain appropriate documentation for information required on the grant application. The report recommended that DCBE establish procedures to ensure that applications are complete and accurate and that proper documentation is maintained.

For school year 2001-2002, the A-133 audit report stated that DCBE's 2002 Title I application pertaining to the determination of eligible and participating attendance areas and school allocations was deficient as follows:

- 183 private and home schooled children were not included as resident children on the application submitted to GDOE;
- 113 students from two schools, which were closed down between the time that the number of resident children was calculated and the time that the application was submitted to GDOE, were not allocated to the remaining eligible schools; and
- 562 poverty children were not included in the poverty children counts as reported on the application to GDOE.

The report stated that this condition was the result of DCBE's failure to implement adequate internal controls for monitoring compliance with Federal guidelines. The report recommended that DCBE review the Federal compliance procedures in place, design procedures to enhance monitoring compliance, and implement those procedures to strengthen the internal control over Federal programs.

Our follow up with the DCBE and GDOE officials revealed that the same Title I finding will be reported in the 2002-2003 A-133 audit report.

GDOE's Financial Review Office (Financial Review) is responsible for collecting and tracking the resolution of LEAs' OMB Circular A-133 audit report findings. Financial Review provides the LEAs' corrective action plans to the GDOE Title I office for review and resolution of the audit findings. LEA officials stated that the corrective action plan in response to the 2002-2003 audit was being prepared. GDOE officials stated that a visit to DCBE would be conducted to determine if DCBE would be required to reallocate Title I funds.

ED Site Visit

In a program review performed in 2001, ED's Title I program office found that GDOE did not adequately monitor LEAs. Our review of GDOE's monitoring guide indicated that improvements were needed in several areas of the guide. GDOE officials said they were in the process of revising the monitoring guide to include a procedure to obtain monitoring reports on LEAs. Since GDOE only monitored a fourth of the LEAs, tracking the results of monitoring visits and A-133 audit reports would aid in getting wider coverage of LEAs and identifying LEAs that need technical assistance and training in implementing their Title I program.

## RECOMMENDATIONS

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require GDOE to:

2.1 Obtain the results of monitoring site visits from its School Nutrition Office and OMB Circular A-133 audit reports when Title I related findings are identified at LEAs to determine common and recurring findings.

2.2 Use information learned from Title I related findings to identify the technical assistance and training needs for LEAs and monitor LEAs for corrective actions and compliance with Title I regulations.

2.3 Report the corrective action taken to resolve the A-133 audit findings for the past three years for the Dougherty County Board of Education.

**GDOE RESPONSE AND OIG COMMENTS**

GDOE concurred with the findings and recommendations. We reviewed GDOE's planned corrective action to address the recommendations and agree that the corrective action should help GDOE improve its administration of the Title I program.

**FINDING No. 3 – Poverty Student Count Data Used by Atlanta Public Schools (APS) to Allocate Title I Funds Was Not Supported**

For school year 2002-2003, we reviewed the supporting documentation for the total student population count and poverty student count data used by APS to allocate Title I funds to schools. We did not identify any discrepancies in the total student population count data used by APS on their Title I application. However, the poverty student count data used by APS to allocate Title I funds to schools was not supported by source documentation.

Pursuant to the No Child Left Behind Act of 2001 (NCLB), Title I, Part A, §1113(a)(5), "the local educational agency shall use the same measure of poverty, which measure shall be the number of children ages 5 through 17 in poverty counted in the most recent census data approved by the Secretary, the number of children eligible for free and reduced priced lunches under the Richard B. Russell National School Lunch Act, the number of children in families receiving assistance under the State program funded under part A of title IV of the Social Security Act, or the number of children eligible to receive medical assistance under the Medicaid program, or a composite of such indicators, with respect to all school attendance areas in the local educational agency to (a) identify eligible school attendance areas; (b) determine the ranking of each area; and (c) determine allocations under subsection (c)."

Pursuant to NCLB, Title I, Part A, §1113(c)(1), "A local educational agency shall allocate funds received under this part to eligible school attendance areas or eligible schools, identified under subsections (a) and (b), in rank order, on the basis of the total number of children from low-income families in each area or school."

Pursuant to 20 U.S.C. §1232f, "Each recipient of Federal funds under any applicable program through any grant, subgrant, cooperative agreement, loan, or other arrangement shall keep records which fully disclose the amount and disposition by the recipient of those funds, the total cost of the activity for which the funds are used, the share of that cost provided from other sources, and such other records as will facilitate an effective financial or programmatic audit. The recipient shall maintain such records for three years after the completion of the activity for which the funds are used."

We selected a random sample of 10 of the 88 schools that APS provided Title I funding to during the 2002-2003 school year and reviewed the supporting documentation. We reviewed the individual school rosters maintained by the APS School Nutrition Office, which according to school nutrition officials was the supporting documentation for the poverty figures used on the Title I application. The rosters showed the students who were eligible for free and reduced-price meals. We compared the total number of students classified as eligible for free and reduced-price meals on the school rosters with the total number of students classified as eligible for free and reduced-price meals on APS' Free and Reduced Price Meal Eligibility – October 2001 report. For all 10 schools, APS reported a greater number of poverty students on its Title I application than the number shown on the individual school rosters. APS reported between 61 to 196 more poverty students on the Title I allocation calculation than supported by the school rosters. APS used this report to prepare its Title I application.

In addition to the review of the school rosters, we randomly selected 2 of the 10 APS sampled schools and compared the total number of students determined eligible for free and reduced-price meals on the free and reduced-price meal applications maintained by the APS School Nutrition Office with the total number of students reported as eligible for free and reduced-priced meals on APS' Title I application. Both schools showed a higher number of poverty students on the Title I application than was supported by the free and reduced-price meal applications. APS reported 79 more poverty students for one school and 223 more poverty students for another school on the Title I allocation calculation than supported by the free and reduced-price meal applications.

The APS Title I office used the Georgia Department of Education *Free and Reduced Price Meal Eligibility – October 2001* Report as the source for the count of the poverty students and total student population used in their Title I application sent to GDOE. This report was downloaded from the GDOE web site. The APS School Nutrition Office was responsible for approving and maintaining the free and reduced-price meal applications and the individual school rosters that document the poverty students. Officials from the APS Title I office did not verify poverty figures to make sure they were supported and correct prior to using them in the Title I allocation.

The School Nutrition Office was responsible for reviewing, approving, and maintaining the supporting documentation for the poverty figures reported. For 2 of the 10 sample schools, we requested actual free and reduced-price meal applications from the School Nutrition Office. The School Nutrition Office for APS did not maintain adequate supporting documentation for the poverty figures reported. Free and reduced-price meal applications did not support the number of poverty students claimed. Also, APS officials said the student poverty data stored in APS' computer system for the audit period was lost due to a computer crash and was unrecoverable. As a result, APS did not have any electronic support for the poverty figures reported.

For the last five years, the Georgia School Nutrition Office performed reviews of the poverty figures reported by the APS School Nutrition Office and found that APS made inaccurate counts of eligible students for the free and reduced-price meal counts.

APS funded 88 of the 92 schools in the district with Title I funds according to their Title I allocation. These 88 schools received a total of $27,042,000 in Title I funds. We reviewed supporting documentation for the total student population and poverty children used in the Title I

allocations for 10 of these 88 schools. These 10 schools were allocated a total of $3,563,615 in Title I funds. Table 3.1 below shows the amount of Title I funds allocated to all 10 schools in our sample.

APS allocated Title I funds to the schools based on a ranking percentage of poverty students. For example, schools with poverty percentages between 100 and 98.35 percent received $825 per pupil and schools with poverty percentages between 98.34 and 97.50 percent received $740 per pupil. APS funded schools down to the 44.09 percent poverty level. The lowest per pupil amount was $400. The amount a school received was based on its percentage ranking.

Using the count of poverty students shown on the school rosters, we recalculated the poverty percentages for the 10 schools in our sample. The difference in the recalculated poverty percentages ranged from 18.67 percent to 33.15 percent lower than the poverty percentages on the Title I application. Our review of the supporting free and reduced-price meal applications maintained by the School Nutrition Office further showed that the poverty level reported by APS was not adequately supported. The poverty percentages for all 10 schools in our sample were overstated. Table 3.1 below illustrates the differences in the poverty percentages used on APS' Title I application and those calculated by the audit team using available supporting documentation. As a result, some schools may have been allocated less and other schools may have been allocated more Title I funds than they should have received.

**Table 3.1 -- Differences in Poverty Counts and Percentages in Title I Application and Poverty Counts and Percentages Supported by Documentation**

| | | | | | | **Title I Funds Allocated to Schools** |
|---|---|---|---|---|---|---|
| Hill Elementary | 328 | 471 | 94.48% | 69.64% | 24.84% | $300,375 |
| Sylvan Middle | 373 | 619 | 91.92% | 60.26% | 31.66% | $384,075 |
| Adamsville | 244 | 371 | 98.92% | 65.77% | 33.15% | $302,775 |
| F.L. Stanton | 241 | 337 | 99.41% | 71.51% | 27.90% | $276,375 |
| Price Middle | 623 | 841 | 92.87% | 74.08% | 18.79% | $527,175 |
| Long Middle | 595 | 857 | 88.10% | 69.43% | 18.67% | $434,125 |
| Lakewood | 270 | 343 | 99.71% | 78.72% | 20.99% | $282,150 |
| Slater | 252 | 319 | 98.12% | 79.00% | 19.12% | $231,620 |
| Thomasville | 448 | 618 | 94.34% | 72.49% | 21.85% | $393,525 |
| Bethune | 462 | 597 | 97.65% | 77.39% | 20.26% | $431,420 |
| | | | | | **Total Funds Allocated** | **$3,563,615** |

Based on our finding that the poverty percentages for all 10 schools we reviewed were overstated, it is likely that the $3,563,615 in Title I allocations to these schools was incorrect. In addition, if the Title I allocations to all 10 schools in our sample are incorrect, it is likely that APS incorrectly allocated the $27 million to the 88 schools that received Title I funds.

To determine the actual dollar effect of APS using incorrect poverty counts, APS would need to determine the correct poverty counts and percentages for all 92 schools on its Title I application and rank all 92 schools in correct order to determine the amount of funds it should have allocated to schools based on correct poverty percentages. The difference in the amounts allocated would then identify which schools were allocated deficient or excessive Title I funds.

**RECOMMENDATIONS**

We recommend that the Assistant Secretary for the Office of Elementary and Secondary Education require GDOE to:

3.1 Require APS to verify poverty figures submitted by its School Nutrition Office to GDOE prior to using the figures in the Title I allocation.

3.2 Require APS to recalculate its Title I allocation for the 2002-2003 school year and make reparations to the appropriate schools that did not receive the correct amount of Title I funds.

3.3 Require APS to maintain adequate documentation for the poverty figures used in the Title I allocation.

**GDOE RESPONSE AND OIG COMMENTS**

GDOE concurred with the findings and recommendations. We reviewed GDOE's planned corrective action to address the recommendations and agree that the corrective action should help GDOE improve its administration of the Title I program.

# BACKGROUND

The Title I program is authorized under the ESEA of 1965, as amended by the NCLB. Title I grants are intended to help elementary and secondary schools establish and maintain programs that will improve the educational opportunities of low-income and disadvantaged children. The funds are intended to provide instruction and instructional support for these disadvantaged children so they can master challenging curricula and meet State standards in core academic subjects.

Title I funds are distributed from ED to States based primarily on poverty data provided by the U.S. Bureau of the Census and State per pupil expenditure data. The State's allocation is the sum of the LEAs' allocations as determined by ED. However, ED's allocations are not the final amounts the LEAs receive because the State must adjust the allocations to:

- Reserve funds for State administration (up to 1 percent or $400,000, whichever is more) and for school improvement activities (2 percent for the 2002-2003 and 2003-2004 school years and 4 percent for succeeding years); and

- Account for changes in district boundaries, consolidations, creation of special districts such as charter schools or regional vocational/technical schools that are eligible for Title I funds but not reflected in ED's allocations.

In distributing funds to schools, LEAs are subject to several restrictions. An LEA must determine which school attendance areas are eligible to participate in Title I. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent. An LEA also may designate and provide Title I funds to a school serving an ineligible attendance area if the percentage of children from low-income families enrolled in that school is equal to or greater than the percentage of such children in a participating school attendance area. When determining eligibility, an LEA must select a poverty measure from among those specified in the statutes. The LEA must use the measure consistently across the LEA to rank all school attendance areas according to their percentage of poverty.

LEAs allocate funds to eligible schools or attendance areas in rank order according to their poverty percentages. An LEA must serve those schools or areas above 75 percent poverty, including any middle or high schools, before it serves any schools or areas with a poverty percentage below 75 percent. Once all schools and areas above 75 percent poverty are served, the LEA may serve lower-poverty areas and schools either by continuing with the LEA-wide ranking or by ranking its schools below 75 percent poverty according to grade-span groupings. An LEA with an enrollment of less than 1,000 students or with only one school per grade span is not required to rank its school attendance areas.

LEAs are not required to allocate the same per-pupil amount to each school. If they choose not to allocate the same per-pupil amount to each school, they must allocate higher per-pupil amounts to poorer schools than they allocate to schools with lower concentrations of poverty.

GDOE received $313,035,038 in Title I, Part A funds for the 2002-2003 school year and ranked 10th in funding received among all States. After reserving funds for administration and school improvement, GDOE allocated $300,521,628 (about 96 percent) of Title I funds to 180 LEAs, including 31 charter schools. The 10 LEAs we reviewed received a total of $71,642,869 of Title I, Part A funds.

## OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine whether GDOE allocated Title I funds in accordance with Title I of the ESEA, governing regulations, and ED guidance. To meet this objective, we (1) determined whether GDOE properly followed Title I regulations and guidance for setting aside Title I funds received from ED for State administration and school improvement and making final grant allocations to LEAs, (2) determined whether selected LEAs allocated Title I funds to the schools with the highest percentages of poor children (in rank order), (3) determined whether only eligible schools received Title I funds, (4) determined whether proper poverty measures

were used and that lower poverty schools did not receive higher per pupil allocations than higher poverty schools, and (5) verified that the data the LEAs used to identify and count eligible poverty children was consistent and inclusive (private school, charter school, and home school children). Our audit covered the 2002-2003 and 2003-2004 school years (July 1, 2002, through June 30, 2003, and July 1, 2003, through June 30, 2004).

To achieve our objectives, we -

- Reviewed GDOE's management control structure, policies, procedures, and practices applicable to its allocation of Title I funds to LEAs and monitoring of LEAs' allocations of Title I funds to schools;
- Obtained the universe of LEAs from GDOE;
- Stratified the universe of 164 LEAs[2] based on the amount of Title I funds received into five strata, selected the two LEAs (APS and the DeKalb County Schools) that made up the first strata, and randomly selected eight additional LEAs from the remaining four strata;
- Visited the APS and the DeKalb County Schools to review policies and procedures, Title I applications, and source documentation to support the Title I application data;
- Conducted desk reviews of policies and procedures and Title I applications for the eight LEAs randomly selected for review;
- Obtained information regarding the selected LEAs' allocation processes and allocations for the 2002-2003 school year;
- Interviewed various ED, GDOE, and LEA officials as necessary to answer the audit objectives;
- Analyzed information received from the GDOE and LEAs regarding their respective Title I allocations.

In addition, we reviewed each LEA's allocation process by

- Identifying the key people involved in the allocation process,
- Obtaining and reviewing copies of the two most recent Single Audit reports and management letters,
- Obtaining a list of the Title I allocations to schools,
- Gaining an understanding of the allocation process and related controls,
- Determining whether Title I funds were allocated to schools with the highest percentage of poor children (rank order) and only to eligible schools,
- Ensuring lower poverty schools were not receiving higher per pupil allocations than higher poverty schools and that the poverty measure used was proper,
- Verifying that the student count data used in the allocation was accurate and inclusive in accordance with the ESEA and the applicable regulations, and
- Assessing the reliability of computer-processed data applicable to the allocation of Title I funds to schools.

To meet our objectives, we relied, in part, on computer-processed data that GDOE used to allocate Title I funds to LEAs. The data used were GDOE's Title I grant allocations, student enrollment counts, and counts of students eligible for free and reduced-priced meals contained in GDOE's computerized database. To determine whether this data was reliable, we assessed the

[2] We excluded 17 LEAs that received less than $300,000 in Title I funds.

adequacy of the policies and procedures followed by the GDOE and LEAs to calculate or summarize the data and enter the data into the computer system. We recalculated and verified the accuracy of GDOE's Title I grant allocations.

Since GDOE did not have readily available documentation and staff to demonstrate that the Title I program set-aside funds and allocations made to LEAs were prepared accurately for award year 2002-2003, we used alternative audit procedures to determine the accuracy of GDOE's calculations. We compared and determined that the set-aside funds and allocations that GDOE made to LEAs for the 2002-2003 award year were reasonable and consistent as a percentage (varied by 3 percent or less) of the total set-asides or allocations made to LEAs for the 2003-2004 award year.

We also compared the student enrollment count data to the LEAs' total student population counts shown on their Title I allocations (applications). We also compared the student counts for free and reduced-price meals contained in GDOE's Department of Technology Free and Reduced Price Meal data to the LEAs' poverty children counts shown on their Title I allocations for selected LEAs. For two LEAs (APS and the DeKalb County Schools), we also traced enrollment and poverty count data back to original source documentation. Based on our assessment and tests, we concluded that the computer-processed data GDOE provided was sufficiently reliable for the purpose of our audit.

We conducted our audit work during the period January through June 2004. As part of our audit, we visited the GDOE offices in Atlanta, Georgia; the APS offices in Atlanta, Georgia; and the Dekalb County Schools offices in Decatur, Georgia. We did not visit the other eight LEA offices selected for review. Instead, we obtained the necessary information from those LEAs and conducted a review of the information in our office. We contacted LEA officials as necessary to obtain additional information and clarifications during our audit work. An exit conference was held with GDOE officials on August 24, 2004. The audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the review described above.

## STATEMENT ON INTERNAL CONTROLS

As part of our review, we assessed the system of internal controls, policies, procedures, and practices applicable to GDOE's administration of the allocation of Title I funds to LEAs. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objective. For the purpose of this report, we assessed and classified the significant controls into the following categories:

- Allocation of Title I funds to LEAs including controls over the completeness and accuracy of student enrollment and free and reduced priced meal counts, and
- Monitoring LEAs' allocations of Title I funds to schools.

We also assessed the system of internal controls, policies, procedures, and practices applicable to APS and DeKalb County Schools' administration of the allocation of Title I funds to schools. We did not assess the internal control structure of the other eight LEAs that we audited because such assessments were not necessary to achieve the audit objective. Instead of assessing controls for these eight LEAs, we obtained an understanding of the processes that these LEAs used to allocate Title I funds to schools and determined whether the processes were in compliance with applicable laws and regulations.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in the internal controls. However, our assessment disclosed significant internal control weaknesses that adversely affected GDOE's ability to administer the Title I program. These weaknesses included the lack of supporting documentation for the amount of Title I funds set-aside for school improvement and State administration, Title I allocation guidelines that need to be updated to comply with Title I regulations, and inadequate procedures for reviewing Title I related findings identified during monitoring visits and audits of LEAs. Also, APS did not maintain source documentation to support the poverty count data used to allocate Title I funds to schools. These weaknesses and their effects are fully discussed in the AUDIT RESULTS section of this report.

## ADMINISTRATIVE MATTERS

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department official, who will consider them before taking final Departmental action on this audit:

Raymond J. Simon
Assistant Secretary
Office of Elementary and Secondary Education
U.S. Department of Education
400 Maryland Avenue, SW
Room 3W315, FB-6
Washington, DC 20202

It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

If you have any questions, please call me at 404-562-6477 or Assistant Regional Inspector General Mary Allen at 404-562-6465.

Sincerely,

*J. Wayne Bynum*

J. Wayne Bynum
Regional Inspector General

cc:
Scott Austensen, Deputy State Superintendent of Schools for Finance and Business Operations, GDOE
Clara Keith, Title I Director, GDOE
Randy Trowell, Accounting Services Division Director for Finance and Business Operations (GDOE audit liaison)
Kim Site, Grants Accounting Manager, Finance and Business Operations, GDOE

# ATTACHMENT – WRITTEN RESPONSE TO THE DRAFT REPORT

**Georgia Department of Education**
**Office of the State Superintendent of Schools**
**Twin Towers East**
**Atlanta, Georgia 30334-5001**
**www.doe.k12.ga.us**

Kathy Cox
*State Superintendent of Schools*

(404) 656-2497 Fax (404) 657-5521

September 24, 2004

Mr. J. Wayne Bynum
Regional Inspector General for Audit
U.S. Department of Education
Office of Inspector General
61 Forsyth Street, Room 18T71
Atlanta, GA 30303

Subject: Response to Draft Audit Report

Dear Mr. Bynum:

Attached is the Georgia Department of Education's (GDOE) response to the draft audit report dated August 25, 2004, Control Number A04-E0002, audit of the Georgia Department of Education's allocation of Elementary and Secondary Education Act of 1965, as amended (ESEA), Title I, Part A (Title I) funds to local educational agencies (LEAs) and selected LEAs' allocations to schools. Audit coverage included the period July 1, 2002 through June 30, 2004 (award years 2002-2003 and 2003-2004).

Sincerely,

Scott Austensen, CFA
Deputy Superintendent for
Finance and Business Operations

SA:ip
Attachement

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**State Education Agency Corrective Actions**

The Georgia Department of Education has instituted the following procedures to ensure that appropriate documentation and safeguards are in place when determining allocation Title I Part A funds:

Finding No. 1 – GDOE Management Controls Over Supporting Documentation for Set-Aside Funds and Allocation of Funds to LEAs Need Strengthening

IG Recommendations:

1.1 Implement controls to maintain and safeguard the documentation for setting aside Title I funds for State administration and school improvement, and making final Title I grant allocations to LEAs.

1.2 Develop up-to-date written procedures and guidelines that comply with Title I allocation requirements.

1) We concur with the finding. The corrective action will be implemented by December 31, 2004. The Office of Finance and Business Operations will determine allocations and maintain appropriate documentation in collaboration with the Division of Title I. In addition the following procedures were implemented:

   a. The Office of Finance and Business Operations hired a budget analyst to work in collaboration with all federal program managers to determine allocations and manage the consolidated administration budget in accordance with federal statute and regulations.

   b. The budget analyst and Title I Director updated the Title I allocation guidance in accordance with federal statute and regulations to determine allocations for the 2004-2005 school year. In addition, the budget analyst has documented the procedures for determining allocations. An electronic and paper copy of the determinations, including formulas used to determine allocations, will be maintained in the Office of Finance and Business Operations and in the Title I Division.

   c. The Grants Accounting Division in the Office of Finance and Business Operations receives grant award notifications for all federal allocations. Grants Accounting reviews and confirms set aside requirements for each grant with the appropriate program manager. Once verified by program managers, Grants Accounting establishes appropriate fund accounts and notifies program managers to ensure expenditures are charged against appropriate accounts.

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d. The Office of Finance and Business Operations, the Title I Division, and other federal program managers will develop written procedures and guidelines for subsequent allocation determinations for all federal programs. The guidelines will include step-by-step procedures as well as procedures for the maintenance of paper and electronic records. An electronic version of procedures will be posted on In-Touch, the Department's intranet.

(Note: In the previous administration, the unit responsible for determining allocations did not have oversite from any Office. The Accountability Unit had complete control over determining allocations and did not consult or collaborate with program managers when making determinations. The current GDOE organizational structure requires multiple layers of fiscal control when determining allocations and expending funds.)

Finding No. 2 – GDOE Procedures for Monitoring Title I Related Findings Identified During LEA Monitoring Visits and in Audit Reports Needs Strengthening

IG Recommendations:

2.1 Obtain the results of monitoring site visits from its School Nutrition Office and OMB Circular A-133 audit reports when Title I related findings are identified at LEA to determine common and recurring findings.

2.2 Use information learned from Title I related findings to identify the technical assistance and training needs for LEAs and monitor LEAs for corrective actions and compliance with Title I regulations.

2.3 Report the corrective action taken to resolve the A-133 audit findings for the past three years for the Dougherty County Board of Education.

2) We concur with the finding. The Georgia Department of Education has instituted the following procedures to comply with the IG recommendations:

a. The Office of Finance and Business Operations Accountability Unit in School Nutrition will immediately upon completion of 2004 data, forward to the Title I Division a list of school districts (School year 2000 through 2004) with federal Performance Standard 1 violations (7 CFR Part 210) involving "benefit issuance" AND a confirmation that the district has corrected the eligibility status of students in the school nutrition system and that the district has reported that it has also corrected students' eligibility status in the student information system of the district.

b. Title I Part A regional specialists will consult the report from the Accountability Unit in School Nutrition when approving LEA applications for federal funding and during the monitoring process. In addition, regional specialist will review random samples of LEA eligibility documentation

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during the monitoring process. The Title I Part A monitoring document was updated August 2004 and all regional staff with monitoring responsibilities was trained on the new procedures August 23-24, 2004. LEAs with federal Performance Standard I violations will be notified by the appropriate regional specialist and technical assistance will be provided. LEAs will have 30 calendar days to comply with guidelines.

c. The Title I Division currently provides regional meetings and one statewide conference to address the training needs of LEAs. During the July 2004 Statewide Conference, the Title I Division hosted three sessions on LEA requirements for determining allocations to schools. The guidelines from the U.S. Department of Education were provided to each participant (and email to all Title I coordinators). The training included documentation of eligible children used in determining school allocation and record maintenance and retention.

d. The regional specialist assigned to Dougherty County conducted an onsite review in August 2004. A report of findings and recommendations were filed with the Office of Finance and Business Operations, Financial Review Division. A summary of the corrective actions for Dougherty County Schools is provided below:

   i. Procedures for determining resident children and the number of low-income children have been revised and the 2003-2004 school year data reflects the improvement in the process. Both resident children and poverty children numbers appear to be accurate for the 2003-2004 school year.

   ii. Preliminary data for determining resident children and low-income children for the 2004-2005 school year has been reviewed. The Dougherty County School system was required to show documentation of procedures used to for determinations. Dougherty County has complied and the spread sheet clearly shows correct procedures were followed. In addition Dougherty County has developed internal procedures to ensure appropriate procedures will be followed in the future. Data analysis must be verified by Title I personnel and by financial personnel.

   iii. No reparations for schools were required at this time. Dougherty County is an "alert" LEA and will receive an onsite visit in the spring to ensure that their corrective actions are maintained.

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e. Single audit findings are reported to the Financial Review Division and any findings related to Title I are sent to the Title I Director. Upon receipt of findings, a regional specialist is required to conduct an onsite visit. A written report is sent to the Title I Director and after review and/or revisions, recommendations are sent to the Financial Review Division Director. The LEA is sent a copy of the recommendations and if appropriate given 30 days to provide additional documentation and/or to comply with federal statute and regulations. Regional specialists assigned to the LEA are required to follow up on findings when appropriate and report when the LEA has complied. Once the LEA has fully complied, the Financial Review Division is sent final resolution. (Note: The Title I Division is in the process of collaborating with the Financial Review Division to establish formal procedures for resolving audit findings during the single audit. Once procedures are finalized, the Title I Handbook will be updated and LEAs will be notified.) Corrective action will be implemented by December 31, 2004.

Finding No. 3 – Poverty Student Count Data Used by Atlanta Public Schools (APS) to Allocate Title I funds Was Not Supported.

IG Recommendations:

3.1 Require APS to verify poverty figures submitted by its School Nutrition Office to GDOE prior to using the figures in the Title I allocation.

3.2 Require APS to recalculate its Title I allocation for the 2003-2004 school year and make reparations to the appropriate schools that did not receive the correct amount of Title I funds.

3.3 Require APS to maintain adequate documentation for the poverty figures used in the Title I allocation.

3) We concur with the finding. The Georgia Department of Education has instituted the following procedures to comply with the IG recommendations:

a. The Title I Division is organized into the following three Units:

i. Monitoring and Technical Assistance – regional specialists to monitor and provide technical assistance to ensure compliance with federal statute and regulations.
(Note: The IG Report indicated that in 2001 the U.S. Department of Education indicated that the GDOE did not adequately monitor LEAs and a fourth of the LEAs were monitored during the 2002-2003 school year. The GDOE did not have staff to monitor LEAs during the US ED visit in 2001. During the 2002-2003 school year, regional staff positions were allocated to ensure that appropriate number of

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specialists were available to monitor LEAs are required in OMB Circular A-133. The DOE divided the state into eight regions due to the large number of LEAs. The Title I Division developed monitoring protocol and timeline, shared the protocol with LEAs and as regional staff was hired, began the monitoring process. To date the GDOE has filled seven vacancies, is currently advertising, and expects to have all positions filled at the October meeting of the State Board of Education.

ii. Parental Support – Implementation, Monitoring and Compliance for Supplemental Educational Services, Choice, Family Literacy, Title I Preschool, and Title I Parent Involvement.

iii. Grant Programs – Implementation, Monitoring, and Compliance for Title I Part D: Neglected and Delinquent and McKinney Vento Education for Homeless Children and Youth; Title I Part F: Comprehensive School Reform; Title V: Innovative Programs and Title VI: Rural Education Achievement Program.

b. The regional specialist will conduct an onsite visit to APS to review records of eligibility and to require APS to verify poverty figures prior to using figures to determine 2004-2005 Title I Part A allocations to schools. Upon review and verification of eligibility data, APS Consolidated Application for 2004-2005 will be submitted to the Title I Director for review before approval for grant funds to be posted in GAORS. The regional specialist will consult with the Accountability Unit of School Nutrition to provide additional technical assistance to APS, if necessary.

c. The GDOE will require APS to recalculate its Title I Part A allocation for the 2002-2003 school year as recommended. Recalculations must be submitted to the GDOE within the time frame specified by the U.S. Department of Education. The GDOE will submit written report, as required, to the U.S. Department of Education regarding APS compliance with the IG recommendations.

d. APS will be required to submit in writing its plan to ensure that appropriate documentation is maintained for determining eligibility for Title I Part A school allocations. Records will be reviewed when monitored during the 2004-2005 school year.